

ELEMENTS OF CIVICS AND ECONOMICS

BY

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PREFACE.

Though I deeply feel the many doubts and misgivings as regards my ability to perform the task, there is one excuse I can offer. And it is that my experience as a college teacher extending over a period of nearly seventeen years has convinced me that there is always the last word remaining untold, specially in matters relating to the activities of governments and other live subjects, partly political, partly economic and partly ethical. The new system of government that has been evolved and the factors which have been responsible for bringing a change in the British policy of governing India and helping her forward in her political and economic regeneration, constitute an ever-increasing field for study, deliberation and suggestions.

Many inspiring books have been written by master minds. The feeble attempt on my part to add to the number of excellent productions already in existence, may be taken for what it is worth. Verily, they are so many suns and mine is a torch frantically held out to show the Sun which stands self-illuminated and resplendent in all its glory.

It would not be possible for me to acknowledge my indebtedness to the many authors and numerous Government of India publications I have drawn my inspirations from. I am also indebted to my well-wishers for their suggestions and sympathy.

B. K. CHOWDHURY.

Calcutta,

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TO THE MEMORY OF
MY SON "GOBIN" WHO
ON THE EVE OF HIS FAREWELL,
DEMONSTRATED THE FUTILITY
OF THINGS MUNDANE, AND
STRESSED ON A CLEAN LIFE
OF DEVOTION, PRAYER AND LOVE TO GOD.

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POLITICAL SCIENCE

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POLITICAL SCIENCE

CHAPTER I.

The Nature of the State.

Contents : Scope of political science ; relation to other sciences ; meaning of the state ; its essential attributes ; certain fundamental concepts—family, clan, tribe, people and nation ; scope of civics ; state and government ; state and nation.

Political Science.

Political science is a science that deals with the phenomenon of the state. It may, therefore, be defined as the science of the state. It endeavours to understand the state in all its aspects. For instance, how the state had had its origin in the past, what has been the process of its development from a crude beginning to its modern form, how political theories have influenced the development of the state. It also analyses the component parts the state is made up of, classifies states according to the governments which they possess and finally deals with the question, namely, what the state ought to be i. e. the ultimate end of the state, as distinguished from what the state actually is.

Relation of Political Science to other allied sciences.

Political science is a branch of social science called sociology. The former deals with only one kind of human association, namely, man in his political relations alone to others ; whereas the latter is a comprehensive science and deals with man in all his social relations. Hence political science is narrower than sociology and forms one of its subdivisions.

History is a narration of past events, their causes and interrelations. And all history is not related to political science. Thus the history of important personages forms no part of the study of political science. But a nation's political history supplies the raw materials for political science. The record of past states, their rise and fall, serve as important guides for determining the proper activities of states. History gives "the third dimension of political science". In the words of Seeley,

"History without political science has no fruit ;
Political science without history has no root."

Economics, ~~the science of~~ wealth, deals with individual activities in the pursuit of wealth. And production and distribution of wealth, to a large extent, depend upon the form of government. Also, an important branch of economics deals with the activity of the state in regard

to wealth. Finally, the economic conditions of a country materially affect the state organisation which also is capable of modifying the economic conditions.

The Conception of the State.

Political science being a science of the state, a clear conception of the state is essential. From the commencement of social life men have lived under some form of authority although the nature of this authority and the organs through which it is exercised have varied. An analysis of the state, however, shows that it embodies the following factors :—

1. A territory.
2. A population.
3. Unity and
4. Organisation

There can be no state without a definite territory as state powers cannot be exercised indiscriminately over any part of the earth's surface. Hence nomadic people have not reached the full condition of a state as they do not have a fixed abode, although they live under chieftains and are governed by laws. Ideas

Territory. regarding the extent of the territory have widely varied. The ancient Greeks had city states. The Roman conception of boundary was the whole world. Modern states have imposed limits on the boundaries and the states of the world are separated by natural geographical boundaries or

artificial barriers like posts, walls etc. The proper limit to the size of a state is that it should neither be too unwieldy, nor too small. It should be large enough to enable the people to subsist.

No state can last without population. In fact, the two concepts of population and territory are so close that the state sometimes means population (in an expression like 'the state has made up its mind'), sometimes territory (in an expression like 'one has crossed the boundary of a state'). The territory, if uninhabited, cannot form a state. No limit can be imposed as regards the number of persons that one state may include. And states of the world have widely varied in respect of their population. Rousseau's number of 10,000 as forming the population of the ideal state is too small judged by modern standard of a state's requirements. The population will be such that it can be effectively governed, but large enough to hold its own against foreign aggression.

In unity are involved two concepts, a complete external independence and an internal oneness. The community must form a coherent whole in its internal organisation and also act as a unit in external relations.

In every state there must exist an organisation through which the will of the state may be formulated, expressed and realised. In other words, a political machinery i.e.,

government, will have to be created, this organisation being an outward manifestation of the state. The government may have come into being either by mutual consent of the people connected by ties of locality, language, common race and the like ; or it may have been imposed upon an unwilling people by coercive force.

Government.

Population and territory form the physical basis of the state, the moral or ethical element is a combination of unity and organisation i.e., Sovereignty. In its internal aspect, sovereignty means that the state has the completest control over all its members. Externally viewed, sovereignty means a complete immunity from control of any other state.

Sovereignty

This then is the nature of the state. A few definitions of state may now be given.

"A state is a people organised for law within a definite territory" (Woodrow Wilson). Holland defines a state thus :

"A state is a numerous assemblage of human beings, generally occupying a certain territory, amongst whom the will of the majority or of an ascertainable class of persons is by the strength of such a majority or class, made to prevail against any of their number who oppose it."

Bluntschli says that "the state is the politically organised people of a definite territory."

From these definitions four essential elements may be deduced. These are a community of persons held together by common ends, occupation of a definite portion of the earth's surface, a common authority, a machinery or magistracy called Government and finally, independence of foreign control i.e., Sovereignty.

**Essential
elements
in these
definitions.**

Some writers, like Bluntschli, have cited a few more elements. The state is an organism, not a mere natural but a moral and spiritual organism. Another attribute, according to him, is the masculine character of the state. The qualities of permanence and continuity have also been attributed to the state. And finally, the state is regarded as a juristic person. In international conferences, different states are represented as different persons and just as the difference between man and man rests on individual personalities, so also a state, clothed with a prominent personality, enjoys considerable prestige in the eyes of other states.

Distinction between the Idea of the State and the Ideal :—German writers are in the habit of distinguishing between the idea of the state and the ideal. The idea of the state is arrived at from a consideration of the nature and actual features of the states which have existed. But the ideal, which rests for its realisation, on the common nature of mankind and transcends all national peculiarities or claims, is really deeper and higher than the idea. Political thinkers have asserted that this

goal will be reached when the world, instead of being dotted with so many states presenting sharp contrasts to one another, will constitute the territory of a universal state and the whole of mankind shall be incorporated as its population.

Certain fundamental concepts :—The origin of government is connected with the family and the original bond of union, and sanction for **Family.** authority were based upon blood relationship, real or supposed. A state is an extended form of family. It is the family writ large. Opinions, however, differ as to whether the original family was of the patriarchal type or not. But it is beyond doubt that some kind of family life and tie of kinship served as a model out of which authority and state organisation developed. Woodrow Wilson says that the patriarchal family "is that in which descent is traced to a common male ancestor, through a direct male line, and in which the authority of rule vests in the eldest living male ascendant." The state grew out of the family and the family consists of a body of persons, including the parents, sons, daughters and other dependents all living under the same roof. Descent from a common ancestor is the bond of union. In course of time a belief in a common ancestor, so far as the various collateral families are concerned, served as an effective tie. Fictitious extension of the idea of kinship was resorted to in order that groups of families might be incorporated in the same category.

The next stage of evolution of a family is its growth and an aggregation of a number of families is known as a clan. According to Seeley, the early city of Rome was composed of a number of primitive clans, each clan living in a separate settlement, side by side, and the oldest districts of Rome bear the names of the ancient Patrician *gentes*. This is also true of the Hebrew clan. The testimony of Woodrow Wilson is :

"A family, a clan, like the House of Hebrew patriarch, Jacob, can become the nucleus round which, in time, a greater number gathers, but a real state cannot be formed until that has happened, until the single family has broken up into a series of families, and kindred has become extended to the race. The horde is not yet a tribe. Without a tribe, or at a higher stage of civilisation, without a nation, there is no state."

A tribe is a section of the "people", a group of persons that form a community and claim descent from a common ancestor. "As the races of man-kind part into different peoples, so peoples divide into tribes." The different tribes of the same people may be animated by a common life, language and customs. They may, however, exhibit internal differences with the result that their separate existences are perpetuated as the inner differences are kept alive. The different tribes no doubt contribute to the national life. Sometimes they are an accession of strength.

by reason of their varieties of life, sometimes they are a stumbling block and a hindrance to the unity of the state. "Though Rome grew strong by the internal conflicts of parties, resting originally on tribal differences, it was the violence of tribal antagonisms which prevented the Greeks from forming a durable collective state." A tribe is the starting point, a germ, for the formation of a nation and eventually a state.

A People implies the notion of a civilisation just as a Nation implies a political idea. Both the 'people' and 'nation' are the product of history. **People and Nation** But "a people comes into being by a slow psychological process, in which a mass of men gradually develop a type of life and society which differentiates them from others, and becomes the fixed inheritance of their race."

According to Bluntschli "a mere arbitrary combination or collection of men has never given rise to a people. Even the voluntary agreement and social contract of a number of persons cannot create one. To form a people, the experiences and fortunes of several generations must co-operate, and its permanence is never secured until a succession of families handing down its accumulated culture from generation to generation has made its characteristics hereditary." Thus the common characteristics of a people are a common civilisation, culture and traditions, a feeling

of common-solidarity which marks them off from other peoples. One people may branch off into several states, but an organic expression of its common spirit is found in a common language. In brief the factors to be found in a people are: a union of masses of men of different occupations; prevalence of a common spirit, feeling and race; a sense of unity produced by common language and customs and a common civilisation. All these, apart from the bond of the state, are the distinguishing marks of a people.

"By a Nation" says Bluntschli "were generally understood a society of all the members of a state as united and organised in the state." The **Nation** 'nation' differs from a 'people' in this that it has a sense of political unity and this lifts it up, above the people. Different writers have laid down different tests or marks of a nation. It is a portion of society separated from the rest of the world by—

- (i) Natural geographical boundaries.
- (ii) A common racial origin.
- (iii) Speaking in a common tongue.
- (iv) Embracing a common religion.
- (v) Possessing common customs, civilisation and literature.

All these marks are not at all necessary for a nation. According to Burgess, a nation is a population with a common language and literature, common tradition and history, common customs and territory

and a consciousness of rights and wrongs. The doctrine of nationality has in the present century played a great part in the organisation and reorganisation of states. It stands for the doctrine "one nation one state, one state one nation"

The Individual and Society.

Civics forms a part of political science. It deals with the rights and duties of citizens. The political reforms introduced in India have aroused considerable interest in matters like education, public health, housing problems of the working-men, the providing of leisure, recreation etc. The vast problems of Indian citizenship and civic ideals are of special interest in our country and if the people are evincing a keen interest in education it is because they have become conscious of the growing responsibilities attaching to civic life. The following lines from the pen of a teacher of civics in the London University vividly express the scope of civics.

"Just as the function of the state has gradually extended to include dealing with such fields of national life as Factory Laws and Education, Health and Housing, so our conception of a citizen has broken what may be called its legal bonds, and expanded into one of a social being with connections all round him in art and science, with roots in the past and aspirations for the future—an entity of greater richness and interest. It is with this fuller

idea of citizenship and with the citizen as a member of an ever-enriching community that modern civics deals."

The problems of civics arise with the conduct of the individual in relation to society. Man is by nature a political or gregarious animal. He has in him implanted tendencies of unity and community with others. Led by this craving that he forms a society for promotion of certain ends and interests. And sociability is a great factor in evolution. Society is older than man himself. The intellectual faculty is preeminently a social faculty. "The fittest are thus the most sociable animals, and sociability appears as the chief factor of evolution, both directly, by securing the well-being of the species while diminishing the waste of energy, and indirectly by favouring the growth of intelligence." If the various associations man has formed have proved superior to the associations of lower types of animal life, it is due to their higher perfection. It is the society that made man what he is, not that man made the society. The most important of the diverse associations which have come into being is the state which seeks to attain the fullest realisation of the corporate life of sections of people living in groups. The state is the *summum bonum* of human life.

Distinction between State and Government.

Nothing can be more erroneous than to regard state and government as being identical in meaning.

The state is the whole community organised politically for development of its corporate life. It is sovereign. The government, on the other hand, is narrower than the state. It consists of the person or body of persons in whose hands the state places, for the time being, the political control. Thus the whole body of citizens forms a part of the state, but not of the government. The state is permanent, but the government is ever-changing. The death of the king brings government, for the time being, to a close. The overthrow of monarchy and its substitution by aristocracy or democracy again is a change in government. But the state, representing the totality of the people, remains unaffected. Government is a mere contrivance or arrangement, acting with powers delegated to it by the state. But the state and not the government is sovereign. As Garner has said "The government is an essential element or mark of the state, but it is no more the state itself than the brain of an animal is itself the animal.....".

Distinction between State and Nation.

The state is a political concept, the nation an ethnic or a racial concept. The nation is a body of people united by common descent and a common language. And divisions of mankind into nations do not coincide with the political divisions of the world into states. A nation is not a state. In its perfect form it is a portion of society separated from the rest of the world by possession of certain common bonds of union like,—

(a) common locality, (b) belief in a common origin, (c) speaking the same language, (d) embracing the same religion (e) and possessing certain heritages in common such as civilisation, customs, literature, and a common history.

According to professor Burgess all these are not the essential marks of a nation. A common language, traditions and history, common customs, territory and common consciousness of rights and wrongs are sufficient to form a nation.

Doctrine of Nationality as a State-making factor.

It has already been pointed out that nation and state are not identical. Sometimes the nation is wider than the state as the French and the Belgians who virtually belong to the same race live as members of two different states. Again, the state is sometimes wider than the nation as the British state which consists of different nationalities like the Anglo-Saxons, the Celts, the Dutch and the French. The doctrine of nationality stands for the creation of mono-national as opposed to poly-national states. In the interests of unity and political stability, it has been advocated that one nation shall form one state and that one state shall consist of one nation.

Nation and Nationality.

Nation is an ethnic term and is used by the Germans to denote a population speaking the same language and

possessing common customs and civilisation, without regard to their political combination. But the English and American usage gives the term a political signification. Hence nation thus viewed, denotes a group of people politically organised under a government. And the term 'nationality' is reserved to signify a population cemented together by bonds of race, language, history, religion and the like.

CHAPTER 2.

The Origin of the state.

Contents : Forces in State-making; the theory of Force; the Utilitarian theory; the Divine theory; the Social Contract theory; the Organic theory; the Modern theory.

Forces in the making of States.

The origin of state is obscure, but the manner in which the state came into existence may be indicated. The modern state had its beginning in a rudimentary form and many factors contributed in its making. The chief sources and influences that caused the state to emerge in the past may be outlined as follows:—

- (a) Kinship. The earliest units were not individuals, but tribes held together by ties of common blood. Tribes enlarged in process of time, but the tie of kinship remained intact and strangers were naturally regarded as enemies.
- (b) Religion. Religion was also a powerful force in state-building. And religion among the primitive races meant worship of ancestors and of nature which was interpreted as manifestations of the supernatural

being. The family organisation was consolidated and religion considerably helped in the emerging of states by inculcating lessons of reverence and obedience.

- (c) Necessity for order and protection also tended to create a unity and organisation which the state requires.

Theories of Origin of the State.

Several speculative theories have been put forward by way of a rational justification of the state authority. Some of these theories may be outlined :—

I. The Force Theory.—The beginning of the state is sought to be explained in the enslavement of man by man. The theory finds the origin of the state in the subordination of the weak to the strong. State authority is justified by the argument that might is right.

This theory has few advocates to-day, though it contains an element of truth. Conquest was one of the powerful forces in state-building and the magnificent empires have been established through "blood and iron". And states, however democratic, have to ultimately rest on force. The weak point in the theory is that in emphasising force, the other contributory factors are neglected. Force may be indispensable for a state, but sheer mechanical force can not bind the people for ever.

II. The Utilitarian Theory :—The state is a useful institution and its authority is explained on the basis of utility. The ideal of the state is stated as the greatest good of the greatest number. Though it contains a residuum of truth, it can offer no justification for its origin and can not explain what right the rulers have over the ruled. In the practical application, also, the securing of the maximum good of the greatest number has given rise to enormous difficulties and inconsistencies.

III. The Divine Theory.—The establishment of the state is attributed to the intervention of God who rules either immediately or mediately. The monarchs were regarded as the representatives of God on earth. They were responsible for their conduct to God and not to the people and hence the monarchical rule tended to degenerate into a tyrannical rule. Societies were also conservative as whatever existed was supposed to be ordained of God.

This theory received a death blow in the hands of writers like Hobbes, Locke and Grotius. The state is a human institution and its laws are enforced by the state. Divine law deals with motives, the state deals with external actions. The sanctions of moral and positive laws are different and political science deals with the latter only.

IV. The Social-Contract Theory.—According to this theory, the original members of a community,

through the medium of a covenant, organised themselves into a body politic. This was done by a voluntary agreement, the people wanting to contract themselves out of their original condition which is depicted as the state of nature.

There are three important elements in the theory. The supposition of a pre-civil condition of mankind, the state of nature, when the people were governed by the so-called natural laws.

Next, the state of nature being very inconvenient (different reasons are assigned by different writers to prove its intolerable conditions) to live in, there is a political compact and the state of nature is metamorphosed into a civil society. Natural law is replaced by the law of the state. By this compact the aggregate of individuals is formed into a body politic. Finally, there is a governmental compact by which the ruler and the ruled enter into contractual relations.

During the 17th and 18th centuries this theory was warmly advocated, but from the beginning of the 19th century it has lost much of its force. The grounds for the rejection of the theory are:—

(1) The theory is unhistorical. History does not furnish a single instance in which a state has really been brought about by contract between individuals. Hence, historically speaking, the theory is a fiction.

**Theory is
unhistorical**

(2) The theory is illogical. The theory assumes equality and freedom of the individuals who are parties to the contract. But political freedom can exist in and not outside a state. Also, if individuals were equal, the state could never come into being, as political inequality is a condition of state existence.

(3) The theory is practically dangerous. It flatters the individual sense of state-making so much that in times of political excitement it degenerates into popular catchwords like Liberty, Equality and Fraternity and may do much harm in a country.

(4) Finally, the theory is not universal, for instance, it can explain the creation of a federal state, but not the creation of the constituent parts.

Nevertheless, the theory contains an element of truth. The truth it emphasises is that human will can determine and influence the formation of the state, and that the relation between the rulers and the ruled is one of mutual rights and obligations.

5. The Organic Theory.

This theory seeks to reconcile the conflict between the state and the individuals by merging them into one organism. Man is by nature a political animal and his

craving for the society of others leads to the social organisation and the state. The state is the highest natural organism and the individuals are the basic cells of which the organism is composed. Like other natural organisms, the state exhibits differentiation and integration of functions.

Viewed as an analogy, the theory brings out the essential nature, unity and evolution of the state. But analogies identifying the state with an organism can neither explain its origin nor its supremacy over the individuals. The chief objections to the theory are :—

- (a) The animal organism has a single life, brain and sensorium ; its cells have no separate wills. The state has these through its individuals.
- (b) Natural organisms have an unconscious growth. The state can deliberately direct its efforts for attainment of an objective.

6. The Modern Theory.

This is known as the historical or evolution theory of state origin. The state is neither the handiwork of man nor is it divinely created. It is not the result of a single movement. In short, the state is not an invention. It is a growth, an evolution, an outcome of a natural process, an historical growth. Man's capacity for associated action and social relationship springs by

a slow process. He learned first to obey, then to be governed.

“Unconscious development gave way to conscious progress, and state growth, influenced by external conditions, by changes in other institutions, and by the efforts of individuals, formed part of the great world movement of nature and man”

CHAPTER 3.

Sovereignty

Contents : Definition and attributes of Sovereignty ; theory of Sovereignty ; location of Sovereignty.

Sovereignty.

The word 'sovereignty' is derived from the Latin *superanus* which means supreme and was imported into political science by Bodin. He defines Sovereignty as the supreme power of the state over its members and the power is not restricted by law. According to Grotius, 'an eminent authority on the subject, sovereignty is "the supreme political power vested in him whose acts are not subject to any other and whose will can not be overridden". Sovereignty is defined by Burgess as the "original, absolute, unlimited power over the individual subject and over all associations of subjects". He also adds that the sovereign power is "the underived and independent power to command and compel obedience".

The concept of sovereignty is the basis of political science. In every state there exists a body of persons whose commands receive obedience and who can, if required, execute those commands by employment of force. Such a body of persons is the sovereign

and the commands of the sovereign are laws. As the sovereign is absolute there can be no legal limit to sovereignty as that would mean a higher law making authority which in turn would be sovereign. The sovereign body cannot limit itself. The state is therefore legally sovereign.

The attributes or distinguishing features of Sovereignty :

Sovereignty presents the following characteristics :—
Just as the state is permanent so also the sovereignty.

**1. Perma-
nence.** There may be changes or interruptions in government; but the state continues without break.

**2. Inalien-
ability.** "Sovereignty", says Lieber, "can no more be alienated than a tree can alienate its right to sprout or a man can transfer his life and personality without self-destruction"

Sovereignty in the state is all-extensive and includes

**3. All-
comprehen-
siveness.** in its scope all persons and objects within the limits of the territory of the state.

The sovereign is absolute in authority over all individuals and associations within the state. Externally

**4. Abso-
luteness.** also, it is independent of any compulsion or interference on the part of other states.

There can be no limitations to the powers of the sovereign. While possessing unlimited power, the sovereign usually exercises a small part of it. It grants rights and

privileges to individuals and voluntarily the state sets limits to its own activities. But these have no legal force against the state, as the state may, at pleasure, change or destroy these limits. So also, treaties or international bindings do not destroy sovereignty since there is no compelling authority to enforce these on a state. These limitations, at best, are self-imposed restrictions. The state is subject alone to its own will, not to any outside will.

The sovereignty can not be divided. There may be a distribution of the sovereign power among the different organs of government. But sovereignty, the sole, supreme will is always a unit. To divide sovereignty is to destroy sovereignty. If it is divided, more than one state exists.

The sovereignty can not be lost by mere lapse of time. It is always open to the sovereign body to recover the power of which it may have been deprived by usurpers.

Theory of Sovereignty.

In the hands of the analytical school of jurists of which Austin was a leading exponent, the concept of sovereignty is thus indicated: "If a determinate human superior not in the habit of obedience to a like superior receive habitual obedience from the bulk of a given society, that determinate superior is sovereign in that society, and that society (including the superior) is a society, political and independent." Austin's conclu-

sions greatly influenced political thought. The belief in natural law was abandoned. Sovereignty was viewed as absolute internal authority and independence of external control.

In criticising this view, sir Henry Maine questioned whether there was in every state a determinate sovereign that had the right to make and enforce law. Oriental civilisation, according to Maine, has for its basis long-standing customary law and the ruthless tyrant can not disregard it. Even in modern states customs are enforced by the courts. Austin anticipated this objection and held that custom is law only when the sovereign sanctions it and what the sovereign permits he commands.

Another objection urged against the theory of sovereignty is that it does not indicate the ultimate source of political authority. This objection is a question of location of sovereignty. The view of many critics is that ultimate sovereignty rests in the masses.

Location of Sovereignty.

The location of sovereignty, i.e, what person or body of persons within the state ultimately expresses the will of the state and enforces that will, is a perplexing problem. Altogether three solutions have been offered which locate sovereignty in :—

1. the people of the state. This is the theory of popular sovereignty and is the logical outcome of the

growth of democracy. This sovereignty is ordinarily exercised through suffrage, the final decision resting with the majority. The main objections to this theory are :—

Popular Sovereignty.

(i) In case of an appeal to arms the majority of the people may be a mob and may be overturned by a small number of disciplined persons.

Objections to this view.

(ii) Suffrage is confined to a state to not more than one-fifth of the population and the majority out of that body is a negligible number.

(iii) The state is a people organised for law. There is a government (which the state creates) which makes and enforces the law. Any body other than this competent to make law is an illegal body and hence sovereignty of the people is a contradiction in terms.

II. the constitution-making body.

According to this view sovereignty is vested in that body of persons who legally make and amend the constitution. This is the legal concept of sovereignty as distinguished from the political sovereignty which is vested in the whole mass of the population or, in a restricted sense, in the enfranchised body of citizens.

Sovereignty of the constitution-making body.

The objections urged against this view are :

(i) the constitution-making body act intermittently while sovereignty is associated with the daily life of the state;

Objections to this view.

(ii) this body is a special organ and is moved for distribution of exercise of sovereign powers among the organs of government, but has no other powers.

III. the law-making body. The highest manifestation of power is the expression of the will of the state and that body which is able to express in a legal formula the commands of the state is sovereign. The legislature thus is Sovereign. It is the most satisfactory theory locating sovereignty, as it does, in a definite body.

**Sovereignty
of the law-
making
body ;—**

**soundness
of the view.**

CHAPTER 4.

The Liberty of the Individual.

Contents: Definition of Liberty; nature of Civil Liberty; content of Civil Liberty; Political Liberty; National Liberty. Is Liberty antagonistic to Law ?

Liberty of the Individual.

Sovereignty of the state and liberty of the individual are not at all contradictory, rather they are correlative expressions. Individual liberty has no meaning and existence unless a sovereign power exists. Liberty is a priceless heritage of citizenship. Every state makes a compromise between sovereignty which carried to excess becomes despotism (which is destructive of liberty) and liberty which also carried to excess becomes anarchy (which is destructive of Sovereignty). Liberty, carefully analysed, shows, however, that it is dependent upon sovereignty. And liberty becomes perfect when sovereignty is fully organised.

Liberty, in its absolute sense, means the power of willing and doing what is willed, without influence from any other source or from without. Liberty, in this sense, means self-determination, lack of restraint of action. Taken in this sense, there is only one free being in the universe, one who is almighty. Obviously, liberty of this nature is impossible for every member at the same time. Liberty of one

**Definition
of Liberty.**

should not contravene the liberty of another. Hence "liberty consists in the power to do everything that does not injure another" and this was the interpretation of liberty in the French Declaration of the Rights of Man adopted in 1789. Spencer succinctly expresses the idea by saying that "every man is free to do that which he wills, provided he infringes not the equal freedom of any other man." This sort of liberty depends upon the existence of authority and is known as Civil Liberty.

Meaning of Civil Liberty.

The greatest liberty is the right to do as one pleases without encroaching upon the wishes of others. Liberty

Nature of Civil Liberty. in a civil society i.e. civil liberty has a positive and a negative aspect. On the positive side, it comprises of right to freedom of action and immunity from interference. Such a condition, however, may be maintained only by some authority which can set limits to the liberty of each and enforce the rights of all. The state as sovereign is therefore the only source of civil liberty. Sovereignty and liberty are thus correlative terms.

Individual liberty which the state creates and protects by its sovereign power involves two things:—

- Guarantee of Civil Liberty.** 1. Protection of the individual against the government.
2. Protection of the individual against other individuals.

The state protects the individual against governmental interference by creating the government and defining its powers. The liberties are protected by law, which can be enforced even against the executive itself.

**Protection
against go-
vernment**

Protection against other individuals is indirectly given by the state through the government. In the former case the government itself is a party, in the latter case, the government is merely an arbiter. Individual immunity against government is provided by public law and against individuals by private law.

**Protection
against in-
dividuals.**

Content of Civil Liberty.

The chief purpose of the state is to adjust man's relation to his fellow beings. Individual liberty against government is comparatively recent in origin. The ancient states vested the sovereign power in the government and evidently there could be no rights over against the state. Liberty of this sort is possible only in the modern constitutional states.

It can be stated generally that growth of popular government has been simultaneous with expansion of civil liberty and a corresponding check on the powers of government. In all modern advanced states the scope of individual or civil liberty is almost the same and it broadly consists of :

1. Freedom of the person.
2. Freedom of conscience.

3. Freedom of opinion and freedom of expression of opinion.
4. Security of private property.
5. Equality before the law.

Meaning of Political Liberty.

An ideal condition of society means the adequate guaranteeing of individual liberty and the existence of a government whose commands are readily obeyed and enforced. In other words, there should be no pitting of the citizen against the government, no friction between the two. And various political devices have been adopted to combine individual liberty and authority. The most effective method so far devised is to place sovereignty and freedom in the same hands by giving the masses both freedom and a share in authority. Democratic government which secures this combination is thus a government of the people by the people themselves. This right or freedom to a share in authority is called 'political liberty' as distinct from civil liberty. It must, however, be borne in mind that civil liberty may be equally enjoyed by all, but political liberty must, as a matter of course, be concentrated in the hands of a relatively small number of citizens.

Meaning of National Liberty.

Liberty is sometimes used in the sense of national independence. It then means freedom from control

on the part of other states. National liberty is thus a synonym for national independence.

Is liberty antagonistic to authority ?

It has been already remarked that liberty and sovereignty, far from being antagonistic, are correlative terms and that the idea of individual liberty has for its basis the existence of a sovereign power. But the issue has been clouded by the advocacy of the "natural liberty" which every man is supposed to enjoy independent of the state. Rousseau gave expression to this confused ideal of liberty in his "Social Contract." "What a man loses by the social contract", argued Rousseau, "is his natural liberty and an unlimited right to anything that tempts him which he can obtain." The advocates of the laissez-faire doctrine have also assumed that the state is necessarily hostile to freedom and that government and liberty, like night and day, can not exist side by side. They have accordingly concluded that a maximum of government results in a minimum of liberty. Liberty, thus understood in its absolute sense, means that there is only one free being, the almighty, as the enjoyment of liberty by one person is not consistent with a corresponding enjoyment by others. But liberty of one in a civil society, can not be a negation of the liberty of another. In reality, judicious state activities, far from curtailing liberty of action, increase it by removing obstacles. It is by

the passing of laws and creation of rights and duties that the strong and self-seeking are placed under a ban and prevented from tyrannising the weak and modest. Liberty is not licence, it is no wanton disregard of the interest of others. And law by preventing a man to act in a spirit of recklessness no doubt curtails his so-called natural liberty, but makes the enjoyment of civil liberty possible and real. A man in enjoying liberty, has no other trammel to respect than Law and Cicero has observed "for this it is we are servants of the law, that we may be free men." It may safely be concluded, therefore, that the state alone can guarantee the enjoyment of individual liberty. Moreover, the existence of liberty, instead of being regarded as inconsistent with authority, is not at all possible apart from it.

CHAPTER 5.

Law

Contents : Meaning and nature of Law ; sources of law ; divisions of law ; its relation to ethics ; international law and evolution of international relations, first, second and third periods ; sources of international law ; nature of international law ; propriety of the term.

Law.

The state regulates the conduct of its members by positive laws which express the will of the state ; and therefore within the category of laws will come all rules which govern the conduct of citizens or residents within the state and which are interpreted and applied by the courts.

The state is sovereign and there exists in a state a person or body of persons whose commands receive obedience, be the commands just or unjust.

What law is.

The state is strong enough to enforce obedience to its commands. Laws, in their essence, are commands which a state issues. Sovereignty being absolute, it admits of no legal limits to its powers and as laws are the expressions of the sovereign power, the lawmaking authority is naturally unlimited. Woodrow Wilson defines law as "the will of the state concerning its own organisation and conduct and the civic conduct of those under its authority."

Law refers to rules for the guidance of human

conduct. If the law refers to motives and not outward actions, it is called moral law. If it, however, concerns outward acts, it is either social law or political law. Social law has for its sanction public opinion. Political law, known as positive law, is enforced by the authority of the state and Holland's definition of law is significant. Law is "a general rule of external human action enforced by a sovereign political authority". From the above discussion of sovereignty it also transpires that no legal restriction can be placed on the 'lawmaking authority of the state. Also conversely, none but this lawmaking authority is capable of issuing laws. One difficulty arises in applying the idea of law to customs which the court enforces but which do not emanate from the sovereign as a legal formula. The Historical School has, therefore, denied that law is an invariable formulation by the sovereign body as along with legislation custom constitutes another and a prolific source of law. But customs become law, in the political sense, only when they are sanctioned by the state. Finally, the distinguishing feature of all law is its enforcement by the state.

Sources of law :

The sources from which law springs are of a diverse nature and these are as follows :—

(1) Custom is the earliest source of law and is the crystallisation of the co-operative action of a commu-

nity. The sanction was partly immemorial usage and partly religion as in ancient times law, and religion were indistinguishable. With social conditions becoming complex and the difficulty of accepting conflicting customs becoming pronounced, the way was paved for emergence of an additional source, namely,

(2) Adjudication. The judge has always played the part of law-maker, not of course as the creator of law, but as the interpreter of custom. But the result is that the law is expanded, precedent is created and followed and the law is modified either unconsciously or deliberately. This law is called case law or judge-made law.

(3) Equity is also judge-made law, the law coming into existence not by interpretation but by way of addition. The most conspicuous examples when no law existed and general principles of equity were applied are the decisions of the Roman Prætor and the English Chancellor.

(4) Scientific commentaries constitute another source of law. The carefully formed opinions of learned jurists have often been accepted as decisive of the law. The Roman juriconsults under the Roman system and in modern times Coke, Blackstone, Story and Kent have been heard by the courts with the greatest respect.

(5) The deliberate formulation of law which is

the most important function of modern states, is known as legislation and is the most prolific source of law in modern times. "At present legislation is almost the only source of law. Custom and equity are being replaced by definite enactment; judicial decisions are limited by codification, and scientific commentary does little except discuss cases"

Woodrow-Wilson's summing up of law is worth reproducing. "Spoken first in the slow and general voice of custom, law speaks at last in the clear, the multifarious, the active tongues of legislation. It grows with the growth of the community. It cannot outrun the conscience of the community and be real, it cannot outlast its judgments and retain its force. It mirrors social advance. If it anticipate the development of the public thought, it must wait until the common judgment and conscience grow up to its standards before it can have life; if it lag behind the common judgment and conscience, it must become obsolete, and will come to be more honoured in the breach than in the observance".

Divisions of Law.

One mode of classification is its grouping under the following divisions :—

- | | |
|--------------------------------|--|
| Legislative enactments. | (a) Statutes which are the enactments of the legislative body. |
| Ordinances. | (b) Ordinances which are administrative directions, not of a permanent nature, |

(c) It is a body of laws whose origin rests on custom rather than on formal legislation, but enforced by the courts.

Common law.

(d) This consists of those fundamental principles that create government, define its powers and the mode of their exercise. In states having a written constitution, the constitutional law is not formulated by the ordinary lawmaking body and is amended by the adoption of a special procedure.

Constitutional law.

(e) This consists of rules which determine the conduct of the general body of civilised states in their dealings with one another. It is doubted whether such law is law in the strict sense as the sanction i. e. compelling force behind the rules is not similar to that behind positive law. International law is regarded as the vanishing point of jurisprudence.

International law.

Another division of law rests on the relations of man to man and of man to the state. The divisions, in brief, are :—

(a) Public law which determines the relation of citizens to the state.

Public law.

(b) Private law which determines the relation of citizens to one another. Public law and private law together constitute municipal law. Public law is subdivided into,—

Private law.
Public law subdivided into,

- Administrative,** (i) Administrative law which determines the relation of officials to the state :
- Constitutional and** (ii) Constitutional law which defines the organisation of the state and also the powers and the methods of their exercise by the government :
- Criminal law and Procedure.** (iii) Criminal law and procedure. Criminal law defines the acts that violate the rights of the state and the penal consequences. Criminal procedure defines the method by which the state-machinery is set in motion for purpose of punishing the law-breakers.

Relation of law to Ethics Though closely related, law is to be distinguished from ethics. In the first place, their sanction is different. The authority behind the positive law is the overwhelming force of the state, that behind ethical or moral rules is public opinion. Ethics deals with the inner springs of human actions i.e. human thoughts and motives; law is concerned with outward acts. There may be many things that are morally wrong (e.g., indulging in vicious thoughts), but not prohibited by law. Every community has a legal as well as a moral conscience but the two are not identical. A good citizen may or may not be a good man.

Law and ethics, in their origin, however, were identical. Ethics and politics are now separated. But ideas of right and wrong tend to be crystallised into

law. And in the end only those laws which have the support of the moral sentiment of the people will be obeyed and enforced.

A note on International law. The evolution of international law may be divided into three periods :—

(1) From the earliest times to the establishment of the Roman Empire when international obligations were not recognised except of communities of the same race. Thus the Greeks while dealing with foreign states regarded all foreigners as "barbarians" to whom no duties were owed. They recognised an interstate relation only with the Hellenic peoples. This isolated position was also occupied by the Romans previous to their aspirations of universal dominion. After Rome became an empire in which the civilised world was included, the *jus gentium* offered a confusing analogy with international law.

(2) From the establishment of the Roman Empire to the Reformation. The Romans became masters of the whole world and their exalted position gave rise to the conception of universal sovereignty of a single power. And even after the decline of the imperial power, (undermined by barbarian invasions and the ascendancy of the pope) the basis of political life, resting on universal dominions, survived. The theory of universal sovereignty received, however, a death blow at the peace of

Westphalia (1648 A. D.) and the end of the second period marked with the rise of modern national states.

(3) From the Reformation to the present time. During this period international relations are reconstructed on the basis of equality and political independence of states with mutual rights and obligations. International principles received a scientific formulation in the hands of the Dutch jurist Grotius. His fundamental doctrines were two in number, namely, that all states are equally sovereign and independent and that the jurisdiction of each state over its area is absolute.

Third period.

Sources of International law. The main sources consist in :—

(a) It taught the equality of all citizens before the law and the Roman idea of a *jus gentium* was responsible for the growth of the idea that back of positive laws passed by states, there existed a body of moral obligations, natural law, which should be binding on all states,

Roman law.

(b) The works of great jurists like Grotius, Kent, Wheaton, Hall and others have given international law the status of a science.

Works of great jurists.

(c) Treaties and conventions,

Treaties,

International conferences and tribunals.

(d) International conferences and arbitration tribunals.

Municipal law of states.

(e) The municipal law of states. In matters like citizenship, naturalisation, army and navy regulations and the like, every state has to legislate, but the interests of other states are also involved.

Diplomatic correspondence.

(f) Finally, diplomatic correspondence between diplomats of states is a factor of international law.

Nature of International Law. Laws being commands given and enforced by a determinate authority, international law is not law in the strict sense as it is devoid of an authoritative sanction. Were, therefore, international law to become law in a real sense, there should be compulsory obedience to the authority issuing it. This would naturally destroy the sovereignty of states and international law would then become the municipal law of a world state. But two obstacles exist and they are, first, the accepted theory of national sovereignty and, secondly, the principle of territorial possession.

As against this view, it has been argued, that international law is law in the making and that it is not so much devoid of a binding sanction as might appear at first sight. What is needed, therefore, for its realisation

is the establishment of compulsory international arbitration. Much will of course depend upon international solidarity. The sanction of all law goes back to public opinion. International law requires for its fulfilment an international court as a rallying-point for international public opinion. And a great advance has been made in this direction, by the mediation of the League of Nations, and by the establishment of a permanent Court of International Justice with elected judges.

CHAPTER 6.

Form of State and forms of Government.

Contents : Forms of the state ; forms of Government ; Aristotle's divisions, their inadequacies ; monarchies, aristocracies and democracies. Representative government ideally the best form of government ; consideration of other forms of government—unitary government ; dual government ; federal and confederate governments ; parliamentary and non-parliamentary governments.

Strictly speaking, a classification of states is impossible as all states possess certain common marks, namely, population, territory, organisation and sovereignty. All states are perfect and equal, but an examination of these fundamental attributes of state reveals certain distinctions between states and states.

Forms of the state.

From the point of view of territory and population, states are either city states, national states or world empires. But such a classification is after all mechanical. The organization of the state is, however, a valuable basis for classification and a classification of states is the same as the classification of government, keeping in view always the distinction between state and government. The objectors to this view do not

regard the state as completely organised in the government, sovereignty not being located in the government as a whole. Hence they distinguish between political and legal sovereignty (the former lies behind the government and the latter consists of some parts of government) and states are distinguished on the location of sovereignty. And Aristotle's enumeration of three types of government, Monarchy, Aristocracy and Democracy (Ochlocracy), still holds good as the sovereign power is respectively in the hands of one, few and the many.

Forms of Government.

The three standard forms of government considered by Aristotle are Monarchy, Aristocracy and Democracy (Polity according to Aristotle). These are normal, pure or healthful forms and over against each such form there is a corresponding bad, impure or perverted form and these forms respectively are Tyranny, Oligarchy and Anarchy (or mob-rule). Aristotle used the word democracy to represent the perverted type. It follows that this basis of classification rests on the number of persons in whom the governmental power is vested.

Criticisms of the Aristotelian theory of classification.

For many reasons Aristotle's division has become obsolete :—

(1) Aristotle gives no consideration to limited or constitutional monarchy.

(2) He makes no mention of Federal and Unitary forms of government.

(3) Nor does he recognise the Cabinet (or responsible form of) government and the Presidential form i.e. governments differing in the constitutional relation of legislature and executive.

(4) Seeley criticises the classification as laid down by Aristotle on the ground that states of his time were city states which differ fundamentally from modern states which are country states.

(5) It has also been pointed out that the classification resting upon mere numbers is after all a mechanical, a quantitative and not a qualitative test.

(6) It is incomplete as states show an admixture of two or three of the standard forms (as the British state is partly monarchical, partly aristocratic and partly democratic) and one is at a loss to place such states under any single form.

(7) Finally, Aristotle makes no mention of theocratic states. A state in which the supreme power is attributed not to any human authority, but to God, is called Ideocracy, the perverted form being Idolocracy.

Monarchy. This is the most widely recognised form of state and has been universal and the first natural form of government for the reason that men of eminent virtue were extremely few in number and

the ancient states were restricted to small localities. There are various kinds of monarchy :—

- (a) Despotism which may be regarded as a barbarous form of monarchy.
- (b) Civilised monarchy which is possible when there is a general advancement of the people and the ruler is compelled to respect their rights.
- (c) Patriarchal monarchy i.e. kingship of the family, the king being regarded as the head of the chief family and father of the race.
- (d) Feudal monarchy.
- (e) Absolute monarchy : this is possible because the political consciousness has not diffused among the masses.

(f) Limited or constitutional monarchy : here the supremacy of the central power is sought to be combined with the liberty of all classes of the nation.

Monarchy, its different kinds.

The form of government is said to be monarchical when the supreme governing authority is vested in a single person. Monarchy is either elective or hereditary or both. The early Roman kings were elective, modern monarchies are of the hereditary type. Monarchy again, is either absolute or limited (or constitutional). An absolute monarch "is bound by no will except his own." A constitutional monarch "is bound by the

prescriptions of a constitution which he has sworn to support." Modern monarchies, wherever they exist; in the continent of Europe, are of the limited type.

The principle underlying absolute monarchy is that the king completely identifies himself with the state.

Absolute Monarchy He alone is endowed with political rights, beyond him there is nothing. Among primitive races absolute monarchy was a useful institution and was a potent way of disciplining people steeped in barbarism. The absolute monarchs of the Mediaeval age paved the way for consolidation of states and helped in the emergence of national states.

It has been urged in favour of this type of monarchy :—

Its merits. (1) It is the most simple, its action is most prompt and energetic.

(2) A competent monarch helps in the realisation of constitutional government.

It is the legitimate mode of government for dealing with barbarians and it is by paying implicit faith to the monarch that the people become disciplined and developed in political consciousness.

Despite these merits, absolute monarchy is open to certain objections :—

Demerits of Absolute Monarchy. (1) Human nature being what it is, an absolute monarch generally degenerates into a tyrant (the successors of beneficent rulers are

generally tyrants). He cares for his self aggrandisement and the welfare of his subjects is ignored.

(2) It is an unnatural and therefore objectional form of government. The benevolent ruler might give the people the benefits of good laws judiciously administered. Administrative efficiency is one, but not the sole, test of a good government. A government which does not rest on the affections of the people and does not stimulate among the people an interest in state affairs and does not succeed in creating a body of active and intelligent citizens, is not at all an ideal government. The people are denied any participation in the government and this is the most objectionable feature of absolute monarchy.

Constitutional monarchy is the product of modern times, but its germ was laid in "the forest of ancient Germany." It had had its beginning when the German princes established their sway on the Roman land and when there was a commingling of Roman political ideas and the conception of German rights.

Limited or constitutional monarchy

Its general characteristics.

There are certain characteristics common to all forms of constitutional monarchy and these are :—

- (i) The constitution regulates the dignity and power of the monarch. "The constitutional monarch does not stand outside or above but in the constitution".

- (ii) Both the letters of the constitution and the laws of the country have to be respected by the constitutional monarch.
- (iii) He promulgates the laws with the consent and advice of the legally constituted legislative body.
- (iv) This body also concurs with him in the raising and disbursing of the public revenue.
- (v) In administrative matters, the constitutional monarch must seek the co-operation of his ministers and no royal decrees will be valid unless countersigned by a minister whose department is affected.
- (vi) The king is an irresponsible head of government, but the responsibility of the ministers for their conduct in administration is indispensable.

(5) Public liberty is guaranteed by excluding the ministers from participation in judicial functions.

Limited monarchy provides for an orderly succession of the hereditary office which, according to some authorities, is to be preferred to an elective government.

Merits and demerits of Limited Monarchy.

Merits. It also provides for a uniformity of counsel, consistency of public policy and a carrying on of administration with vigour and promptness.

The objections to constitutional monarchy
Demerits. are :

(1) Hereditary monarchy runs counter to the spirit of democratic government.

(2) Hereditary principle does not give any guarantee that the throne will be occupied invariably by an able ruler. The son of a good king does not necessarily make a good king. History teems with numerous instances that "immature, feeble-minded and incompetent rulers" have occupied the throne by mere accident of birth.

Aristocracy : Ancient Sparta furnished the most notable example of Aristocracy. The Dorian stock to which the Spartans belonged showed their bias for the aristocratic, as the general Grecian stock, to which the Athenians and others belonged, showed their predilection for the democratic government. The later Roman political institutions, also aristocratic in character, were, however, of a higher type. The Roman societies were less stereotyped than the Spartan and even by their struggles and sacrifices they contributed to the development of their political life.

According to Montesquieu, moderation is the principle of aristocracy and the security of government depends upon moderation alone as the masses are always superior in number and physical strength to the ~~few~~ who constitute the ruling authority. As it is

anxious for self-preservation and jealous of others, it refrains from an unwise and immoderate use of its power. But the fundamental basis on which aristocracy rests is a recognition of the moral and intellectual superiority of the ruling class. Moderation may be statecraft but the essence of aristocracy is virtue and Aristotle's famous dictum is "the characteristic of aristocracy is virtue, that of democracy freedom". Hence aristocracy becomes out of date when the rulers cease to be most fitted and ablest rulers and become weak and vain and the masses attain to equal distinction and merit. The only way to preserve, under such circumstances, the form of government is to provide for the inclusion of new forces and recruitment from the people of lower ranks.

Aristocracy is a government of the best and the principle underlying the selection of the best has varied according to the peculiar condition and character of the people. The various kinds of aristocracy may be thus enumerated :

- (a) Aristocracy of birth, certain privileged families sharing between them the political powers.
- (b) Aristocracy of culture and education.
- (c) Aristocracy of age so that it is a rule of the elders.

- (d) Aristocracy of military exploits such as of knights.
- (e) Aristocracy of property, for instance, of landowning classes or capitalists which, according to Cicero, is the most hateful form.
- (f) Aristocracy of office and when certain tests of fitness are demanded it becomes a bureaucratic government.

The conspicuous features of aristocracy are ;—

- Characteristics of aristocracy.**
- (a) A display of external grandeur and this is how aristocracy is prevented from degenerating the state and its magistracies into the level of common life (which is noticeable in democracy).
 - (b) The aristocrats overvalue their worth and in the consciousness of their superior virtue may rule the masses with cruelty.
 - (c) Aristocracy is averse to all changes ; it is conservative as it is too anxious for its self-preservation. Mistrust of innovations is a marked feature of aristocracy.
 - (d) As a corollary to the above, it shows an excessive attachment to the principle of heredity.
 - (e) Finally, as a self-preservative, aristocracy shows a devotion to law and a careful

observance of all laws. It is because of this that the evolving of the scientific system of Roman law was the remarkable achievement of the eminently aristocratic Roman nation.

Merits and demerits of aristocracy.

The merits of aristocracy are :—

(1) Aristocracy has its basis on a rational principle.
Merits. All persons are not fitted to be rulers ; it is logical therefore that only the good should govern. But such an aristocracy will be a government by the best, but not an oligarchy.

(2) Aristocracy respects merit, talent, wisdom and men of political capacities are naturally enticed to form the government.

(3) Aristocracy is reputed "for sustained mental ability and vigour" in the conduct of administration.

(4) Lord Brougham is of opinion that aristocracy shows certain traits of excellence, namely, firmness of purpose, resistance of violent change, discontinuance of warlike policy and encouragement of genius.

The drawbacks of aristocracy are :—

(1) Although a universal form of government in the infancy of human civilization, it becomes an **Demerits.** anachronism when political consciousness and capacity to rule is diffused among the masses. Democracy now becomes the only inevitable form and aristocracy can no longer be defended.

(2) The real difficulty lies in the adoption of a sound principle for selecting the best men who are to constitute the government. Neither birth nor property are sound tests of fitness and unless aristocracy is based on virtue and talent, it becomes dangerous aristocracy.

Democracy or Popular Government.

A democracy is a form of government in which the exercise of sovereign power rests with the mass of the population. But there is a fundamental difference between the ancient and modern idea of democracy. The ancient democracy was *direct* democracy, the modern democracy is *representative* democracy. The former is possible only in a small state, the latter invariably is the rule in a state with enlarged territories. In direct democracy the will of the state is formulated and realised directly through the people acting in their corporate capacity; in representative democracy this is done through the medium of a select number of men who act as the representatives of the masses.

The most perfect type of direct democracy existed in Athens. The *ecclesia* was the gathering place of all citizens over 20 years of age. And every citizen had a right to appear and vote in person in the popular assembly and in committees of the assembly which acted as criminal courts.

**Direct
democracy.**

The leading features of direct democracy, with its merits and demerits, were reflected in the history of the gifted Athenian people.

**Criticism
of direct
democracy.**

Its fundamental creed is the love of freedom and not authority. And unless the majority of the citizens are endowed with an appropriate political capacity, the popular assembly may commit all sorts of blunders. Democracy would naturally degenerate into arbitrary caprice and there would exist no rule of law. The leaders have to play upon the popular passion and actions subversive of the state have to be often taken. This is why Burke denounces a perfect democracy as "the most shameless thing in the world. As it is the most shameless, it is also the most fearless."

Representative Democracy.

A representative democracy is otherwise known as a republican government or simply a republic. Some writers like Madison have differentiated between a republic and a democracy.

Thus says Madison: "The great points of difference between a republic and a democracy are: first, the governing power in a republic is delegated to a small number of citizens elected by the rest; and, second, a republic is capable of embracing a larger population and of extending over a wider area of territory than is a democracy. In a democracy the people meet and exercise the government in person, in a republic they assemble and administer it by their representative agents."

But Madison's remarks apply obviously to direct and not to representative democracy which may, as already stated, be taken as a synonym for a republic.

The fundamental principles of democracy are, first, that the government should rest on the active consent of the governed and secondly, that every honest and self-supporting citizen is, on the average, as much qualified as another for the work of government and that one man has one vote and nobody is to have more than one vote. However democratically constituted a state may be, it is not possible that every one should have a share in government. The best men of the nation govern in the name and by the commission of the nation. The real difficulty thus lies in organising elections such that the most gifted men should be chosen as rulers. Rightly understood, democracy is rule of both classes and masses. It is the rule "of the people by the people for the people." The two attributes of democracy are *liberty* and *equality*—that all men are equal and have powers in making laws and equal opportunities in serving the state and that every one has equal liberty with his fellow beings in matters religious and political.

Representative democracy presents the following advantages:—

(1) Sovereignty is ascribed to the majority but the exercise of sovereignty is entrusted to a minority. The

latter rules as the elected representatives of the former.

Merits of democracy The majority has neither the time nor the competence to shoulder the responsibilities of government, but has sufficient equipment to take part in elections for securing the services of the best representatives.

(2) Less is demanded of the citizens than in direct democracy. It is the efficiency of the representatives that really counts. The masses are sober enough to send out the best representatives and submit to be ruled by them so long as they retain the confidence of the majority.

(3) It thus follows that a democratic government best safeguards the needs of the people; and the representatives, subjected as they are to popular control, are prevented from acting in pursuit of their selfish ends. It is thus ideally the best form of government.

(4) The beneficial influence of democratic government on the character of the citizens is no less remarkable. It conduces to an elevation of character, stimulates political capacities, makes the people patriotic and urges them to make sacrifices.

(5) It is a stable form of government and chances of revolutionary disturbances are minimised.

Democracy, however, is not free from certain defects which are as follows :

(1) It may be proved from history that democracy



may be hostile to liberty. "To place the chief power in the most ignorant classes is to place it in the hands of those who naturally care least for political liberty and who are most likely to follow with an absolute devotion some strong leader."

(2) It shows its love for restrictive and coercive regulation and sets at naught the essential spiritual equality of mankind.

(3) It means a multiplication of state functions which, in effect, is a multiplication of restrictions imposed upon the various forms of human activity.

(4) It produces a sense of instability and insecurity in politics and revolutionary changes are deliberately introduced to gain party ends.

(5) There is a neglect of culture. Democracy is unfavourable to the development of art and science. There is a standardising of ideas and mind tends to be mechanised.

(6) Democratic government is extravagant government and motives for economy are rarely present and the rich are exploited for the benefit of the poor.

The stability and efficiency of democracy depend upon the guaranteeing of :—

Two requirements of a democracy.

(a) Civil liberty i.e., exemption, within certain limits, from interference on the part of government, as all are equal in the eye of law ; also

- (b) political liberty i.e. the right to share in exercising the authority of the state i.e., where a large proportion of the citizens take part in the formulation of the will of the state.

Representative Government is ideally the best form of Government.

Mill has conclusively proved that the ideally best form of government is that in which the sovereignty i.e. the ultimate supreme controlling power, is vested in the entire aggregate of the community. Representative government provides the citizens not only with a voice in the exercise of this sovereignty; they are occasionally called upon to take an actual part in the government by a personal discharge of governmental functions. That this form of government is superior to all other forms rests on two principles:—

- (a) That the rights and interests of every person are free from ill-advised interference or disregard when the person concerned is able to stand up for them.
- (b) That the general prosperity attains a greater height and is more widely diffused to the extent personal energies are enlisted to promote it.

What is actually the best form of Government for a people?

Representative government is ideally the best form

of government. But it cannot function properly unless three fundamental conditions are fulfilled, namely,

(1) The people must be willing to accept it.

(2) That they should be willing and able to do what is necessary for its preservation.

(3) That they should be willing and able to fulfil the duties and discharge the functions imposed on them.

Hence, representative government is possible among a body of people sufficiently politically advanced i.e., when their intelligence and political capacities have attained a certain stage of development. But as the peoples of the world are at different stages of development and the conditions of uniformity are lacking, a representative government, ideally best as it may be, is not actually the best government for all of them. Thus monarchy is the best form among people where a single man is alone pre-eminent in virtues and the rest are steeped in ignorance. The next best form is aristocracy where some political advancement has taken place, but the needs of the development of the corporate life have not entered into the minds of the masses. And finally, the actually best form of government coalesces with the ideally best form when political consciousness is diffused among the general body of the citizens. Hence "no single form of government is adapted to all societies any more than a suit of clothes can be made to fit all men. The system best

sui^ted to Sparta was not the best for Athens ; what is best for a large empire is not necessarily the best for a state of small area" (Garner).

Succession of Governmental Forms.

Aristotle outlines a natural order of succession of governmental forms and this assumes a recurring cycle. The natural earliest form of government to every people is monarchy which is also hereditary. It might be based on the affections of the people, but the rule of the monarch sinks into tyranny in the hands of the successors. The united efforts of the powerful aristocratic families overthrow monarchy and aristocracy is thus set up. Aristocracies, public-spirited at their initiation, degenerate into selfish oligarchy. As a protest against this which is hostile to civil liberty, the citizens rise in a body and are goaded to revolution. Polity (i. e. democracy in the modern sense) succeeds oligarchy. This again degenerates as the masses tyrannise the richer few and so pave the way for ochlocracy (democracy in the Aristotelian sense). The cycle is completed when a powerful Julius Caesar or Napoleon steps into the political arena and sets himself up on the throne as a monarch.

Consideration of other forms of Government.

Governments may be broadly divided into two classes :—

(A) According to the relation existing between

the central and various local organs, the government being either *unitary* or *dual* and

- (B) according to the degree of separation of powers i. e., the relation of the legislature to the executive, the government being either *Parliamentary* or *Non-parliamentary*.

A. Unitary and Dual Governments.

In a unitary government, the local governmental authorities exist at the pleasure of the central government. The latter expressly creates the former and invests them with powers which are always liable to addition and alteration if it so pleases. The local governments thus hold a subordinate position to the central government. The governments of England and France belong to this type.

Unitary government is best suited when :—

- Conditions under which unitary government may exist.**
- (a) The state is a geographic and racial unity.
 - (b) The population is made up of diverse or heterogeneous elements as a strong central authority can hold the antagonistic elements in check. (compare the conditions prevailing in India.)
 - (c) The population of a state is not sufficiently developed and as such unfitted for running local self-governing institutions.

Dual government is that form of government in which the governmental authority is divided between two sets, each moving within its restricted sphere marked out for it and neither being competent to encroach upon the jurisdiction of the other. Dual government is sub-divided into :—

Dual government sub-divided into.

(a) **Confederate.** In this form there is a central government which acts for certain limited common purposes, but there are as many sovereignties as there are local governments.

Confederation and

(b) **Federate.** Here the government of the country is distributed between the central and local governments. But the latter are not the creatures of the former (as in a unitary state, as both derive their powers from an antecedent source and neither is legally competent to destroy the other).

Federation.

Federation and Confederation contrasted.

The points of distinction between the two forms of government may be indicated as follows :—

(a) Confederation is a temporary union, usually called into being for accomplishing a common object, generally defence, and gets dissolved as soon as the object is realised. A federation is rather a lasting union and legally no secession is allowable.

(b) In a confederation sovereignty remains in

each component unit (the relation between the component states being of a treaty nature). In a federation sovereignty is located in the people as a whole:

- (c) Confederation may rest on a mere pact among the component states, but the act by which a federation is created is a constitution (i. e. a body of laws regulating their relations) and the constitution is both written and rigid.
- (d) Finally, federation is a single united state, the component parts being subordinated to a common sovereign. In a confederation, on the other hand, the several states, with their respective sovereignties, exist as separate entities.

Federal Government.

The world has presented various types of unions. But a fundamental distinction may be made between organised and unorganised unions.

Organised unions possess a common government and these are sub-divided into,—

- (a) International administrative unions in which permanent arrangements are made by the different states for regulating some common interests.
- (b) Monarchical unions in which the states,

united in a common ruler, have their separate sovereignties and retain their individual constitutional rights. (the union of Norway and Sweden from 1815 to 1905 is an example).

- (c) Confederation in which a common government is created and invested with limited powers, it being always open to the component states to withdraw from it.

In unorganised unions, states enter into contractual relations for regulation of mutual interests, but no common government is formed. Thus offensive or defensive alliances, alliance for guaranteeing neutrality and protectorates are examples of unorganised unions.

Nature of Federal Government.

A federal state is a single state. The component parts, previous to union, may or may not have been sovereign states. But they cease to be individually sovereign states after the formation of the federation. Garner defines federal government "as a system of central and local government combined under a common sovereignty, both the central and local organisations being supreme within definite spheres, marked out for them by the general constitution." "It represents a sort of compromise between unitary government and confederate government."

Professor Dicey has laid down certain conditions for a federal union.

(1) There must exist a number of countries "closely connected by locality, by history, by race, or the like, as to be capable of bearing, in the eyes of their inhabitants, an impress of common nationality."

Conditions for federal union.

(2) There must also exist a peculiar sentiment among the peoples proposed to be federated. "They must desire union, and must not desire unity"

It is a contrivance for reconciling two apparently contradictory ideas, namely, the retention of local autonomy, and state sovereignty and the creation of a strong national government and the recognition of the claims of national sovereignty. It is the successful harmonising of these two claims by the creation of a constitution that marks the triumph of federation.

Aim of federation

Distribution of Powers.

Either of two methods may be followed in the matter of distribution of powers between the central and local government. The constitution may undertake a categorical enumeration of the powers of the central government, the powers of the local government being negatively inferred (local governments being residuary legatees) as in America. Or the powers of the local government may be the subject-matter of definition and the central government holds

the position of a residuary legatee (as in the union of Canada).

The general principles underlying the distribution of powers may be briefly indicated. The central government is given over certain functions essential to state existence, for instance, control of military and naval forces, conduct of foreign affairs and the power to raise money by taxation. Moreover, other matters which require uniformity of legislation (for instance, regulation of coinage and currency, patents and copy-rights, marriage and divorce rules, naturalisation, conduct of the postal service) and which, left to local governments, will show the evils of diversified legislation, are also handed over to the central government.

Sovereignty in a Federal State.

There can be no question of division or partition of sovereignty and hence the view held by some that sovereignty is divided in a federal state is a misreading of the nature of sovereignty itself. Sovereignty in a federal state lies neither in the central government nor in the commonwealths, nor is it divided between them. It resides in the state itself. In a federal system there exists the federal constitution which creates and invests with powers both sets of government. Sovereignty is vested in that body of persons which is legally competent to amend the constitution.

Advantages and disadvantages of Federal Government

Federal government presents the following advantages :—

(1) It effectively guarantees external protection. It also removes the possibility of conflicts among the component parts and increases the efficiency of administration.

Advantages

(2) It also provides for effective internal regulation of affairs and maintains an internal uniformity consistent with the maintenance of integrity of autonomy of local bodies. In short, by combining advantages of national unity with control of local matters by local bodies that federalism conduces to stability and progress.

(3) Democracy over comparatively large areas is rendered workable only by the principle of federal government.

(4) It stimulates the interest and capacity of the people in local affairs and the people are trained in the discharge of their civic duties.

The dangers of the federal system are :—

(1) Federal government is weak government and in the conduct of foreign affairs it suffers from an inherent weakness. "A federation therefore will always be at a disadvantage in a contest with unitarian states of equal resources".

Disadvantages

(2) In internal affairs also federal government gives evidence of its weakness.

(3) Federalism begets conservatism. The federal constitution is a rigid constitution and the difficulty of altering the constitution produces a spirit of conservatism.

(4) Federalism also means legalism. The judiciary holds the predominant position in the constitution. It "substitutes litigation for legislation" and succeeds only when the people have a reverence for law and justice.

Essential characteristics of Federalism.

A.—A completely developed federalism presents three important characteristics, namely:—

- (a) Supremacy of the constitution. The legislature, executive, and the judiciary, national or local, are controlled by the constitution. The constitution also, is both written and rigid.
- (b) The distribution of powers between the central and local governments is another essential feature of federalism.
- (c) The courts are authorised to act as the interpreters of the constitution.

B.—**Parliamentary and non-parliamentary governments.** Parliamentary or cabinet government is that form of government in which the tenure of office of the real executive is dependent upon the will of the legislature. The executive or cabinet forms in addition a committee of the legislature. It shares both in the

creation and the administration of law. The cabinet is responsible (in England, as a matter of custom, in France, both of custom and law) to the legislature, usually to the lower house. This sort of government is suited to a state which holds on to the hereditary monarchy after the state has become democratic. The nominal or titular executive holds a position of irresponsibility. He may be a hereditary monarch (as in England) or an elected officer (as the president in France).

The advantage of this system is that the harmony between the different departments of the state is maintained. The presence of the members of the executive in the legislature better acquaints it with questions which it has to deal. The policy is also made consistent.

The disadvantages are that the independence of the executive is jeopardised. In states where party-system has not fully developed or where there exist multiple parties or where the parties are in a nebulous state, unstable coalitions are formed. An unceasing scramble for power becomes inevitable and no regard is paid to consistency of principle.

Non-parliamentary or presidential government is that form of government in which the tenure of office of the executive is independent of the legislature and the executive has sufficient powers to protect itself from

encroachment by the legislature. The executive has no political responsibility to the legislature and can be removed from office for grave offences only upon impeachment. The nominal head of the executive is also the real executive head whether he is a hereditary monarch (as in the old German Empire) or an elected president (as in the U. S. A.)

The advantages of this system are that by concentrating responsibility in the executive a vigorous but cautious administration is secured. The
Advantages. executive can work with a singleness of purpose. Its powers are not weakened by divided counsels.

It is suited to states which include people of diverse interests or to states which are of the federal type.

The dangers are, first, the possibility of deadlock between the legislature and the executive,
Disadvantages. and secondly, if the executive is elective, at the time of election, a tense political atmosphere is created which may occasionally lead to revolution.

CHAPTER 7.

The Structure of Government.

Contents : The theory of separation of powers ; limitations of the theory ; its impracticability and undesirability.

Nature of the Legislative, Judicial and Executive Power :—The functions of a government are divided into legislative, judicial and executive. The legislative function consists in the making and unmaking of laws. The judicial function consists in the interpretation of laws and the executive function consists in the carrying out of the laws. But as a matter of fact, the executive possesses vast powers. This branch of the government exercises great discretionary powers specially in foreign affairs. It has to deal with questions of war and peace and the citizen, in his daily life, has to come in contact with the executive.

It goes without saying, that of the three organs, the legislature is by far the most important. That it holds a paramount position is easily proved. In unitary states, the legislature invests the various local governmental organs with powers. It also holds a sway over the other two departments of the government. It provides for the state revenues and also controls the state expenditures. All offices and services are created by it. In short, it regulates the entire ad-

ministration. It is superior to the executive and the judiciary, as the former is concerned with the administration of the laws that emanate from the legislature and the judiciary is concerned with adjudication of laws which the legislature passes. Finally, in countries like England, the legislature is the competent authority both for ordinary and constituent law-making (and amending).

Theory of Separation of Powers

The cardinal doctrine of political philosophy of the 18th century was that the legislative, judicial and executive branches of the government should be kept separate from one another. In fact, in the hands of the exponents of the theory, an insistence upon separation of functions was urged as it was thought to be the only guarantee for enjoyment of public liberty.

Traces of this theory are found in the writings of Aristotle, Cicero, Polybius and others. But, in the hands of Montesquieu and Blackstone, in the latter half of the 18th century, the theory received a forceful presentation. It exercised also a profound influence in the minds of the practical statesmen of that period. According to Montesquieu "if the legislative and executive power are united in the same person or in the same body of persons, there is no liberty because of the danger that the same monarch or the same senate may make tyrannical laws and execute them,

Early exponents of the theory.

Eighteenth century advocates

tyrannically. Nor again is there any liberty if the judicial power is not separated from the legislative and executive. If it were joined to the legislative power, the power of the life and liberty of the citizens would be arbitrary ; for the judge would be the law-maker. If it were joined to the executive power, the judge would have the force of an oppressor." The English jurist Blackstone gave expression to similar views. Wherever the powers were combined in the same body, invariably a tyrannical government was the consequence.

This theory was in the hey-day of glory at a time when the Americans were liberated from the British yoke and the American constitution-makers (who met in a convention in 1787) naturally accepted it as the basis of the American federal constitution. The initiation of a Presidential (as opposed to a Cabinet) form of government, the independence of the judiciary and the non-liability of the executive to be removable on an adverse vote being passed on it by the legislature, are instances of the application of the theory. Similarly, the French Constituent Assembly of 1789, in constructing a new government for the people, accepted the theory as a workable proposition.

But in no country in the world a complete separation of powers has ever been possible. Even in America, where a deliberate attempt was made to introduce,

the theory, combination of powers has crept into the constitution. The American President has a partial veto power on legislation. The Presidential messages mean the Presidential initiative in law-making. The Senate, a branch of the legislature, participates in executive affairs (e.g. the Senate's ratification of treaties and federal appointments) and the power of the Federal Supreme Court to question the validity of the Acts of Congress and even to declare them null and void are glaring instances of combination. So also in France, the President is elected by the legislature, and the Cabinet is unseated by an adverse vote of the legislature. In England the separation-theory has been defied. The British Cabinet is a committee of the legislature and represents the party that retains the majority of seats in the Commons. The Cabinet retains office so long as they retain the legislative power. As soon as there is a forfeiture of confidence of the legislature on the executive (e.g. expressed by the passing of a vote of censure and the like) the Cabinet resigns in a body.

The separation theory is incapable of strict realisation. In the words of Garner, "the strict separation of powers is not only impracticable as a working principle of government, but it is one not to be desired in practice."

Impracticability of the theory

The impracticability of the three departments being made independent of one another may be thus shown.

The executive has the power of indulging in emergency legislation, of issuing ordinances and negotiating treaties ; functions legislative in character, but which make for an efficient and vigorous administration. Again, the legislature only lays down general principles and the courts are allowed some share in legislation, not avowedly as law makers but as interpreters of laws. But the effect is that the vast mass of judicial decisions become supplementary legislations and these are called "judge-made" laws.

A rigid separation would create a deadlock. Each department would "thwart the actions of the others" and "the consequent loss in efficiency would outweigh all possible advantages arising from the independence."

The undesirability of complete separation arises from the very nature of the state. The state is an **Its undesir-** organism and the several departments **ability.** are organically or vitally connected with one another. In fact, the relation between them is so close that no strict line of demarcation can be drawn between them.

In the words of Woodrow Wilson "Government is not a machine, but a living thing—no living thing can have its organs offset against each other as checks and live." "Their co-operation is indispensable, their warfare fatal." Public liberty is quite consistent with a non-application of the theory. That combination

of powers can most effectually guarantee the individual against a tyrannical government being set up is proved by the example of Great Britain. Hence the theory, in the form in which it was advocated by writers like Montesquieu, Blackstone and others, need not be taken any serious notice of. The only element of truth contained in the theory is that separation, to a certain extent, is desirable as it will produce a body of specialists in each department. "In short, functions may be separated, but not the departments themselves." Efficiency is secured by specialisation and division of labour is essential and performance of different tasks requires different requisites. But the individual liberty is possible without separation of powers and this is sufficiently attested by the government of England.

[The application of the separation-of-powers theory to the Indian system of Government deserves a passing notice. The English people are no believers of the theory. The powers are united in the British Cabinet and this is in fact the most admirable characteristic of the British Government. Naturally, the theory is conspicuous by its absence in the Indian system. But, for obvious reasons, the British and Indian systems of Governments do not run on parallel lines. The Indian Executive, for instance, has a greater control over legislation. The Governor-General has overriding powers "the certifying and vetoing powers" which the Government of India Act vests in

him. Individual liberty is also restricted by the Executive, specially in times of emergency, and this is the judicial power of the Executive. The District Magistrate, who is the executive district authority, can also try criminal cases as a judicial officer.]

CHAPTER 8

The Legislature.

Contents: Its requisites; the bicameral system, reasons for its adoption; composition of the two houses; distribution of power between them; methods of choice; direct and indirect election; direct legislation; initiative; referendum; plebiscite; functions of legislature; process in legislation; representation of minorities; schemes of minority representation—Limited vote plan, method of Cumulative voting, Hare scheme, List system of proportional representation; representation of interests

Organisation of the legislature.

The legislative house is a deliberative house and in matters of deliberation or discussion, it is desirable that those who participate should be many in number. In fact, an ideal legislature is one which consists of representatives of all shades of opinion, interests and sections of a community. This is necessary for purpose of balancing and compromising of conflicting interests. It is, therefore, essential that the legislature shall include a large number of persons. As Leacock has said "for deliberation two heads are better than one, and two hundred are better than two" A multitude is an unwieldy body, but the gain in wisdom or breadth of view is offset by the increasing cumbrousness.

In order that just laws only may be passed, provision is made for securing adequate deliberation and caution. For the legislative bodies have accordingly adopted various devices, which conduce to an efficient dispatch of legislative business and help in the avoidance of rash and hasty action.

Devices adopted. (1) Separation of the legislative body into two houses forming a bicameral legislature, (an upper and a lower house)

(2) The subjecting of a proposal for legislation to three separate readings at different intervals of time.

(3) The unwieldy size of the legislative body and the large volume of business to be transacted necessitate some division of labour. This is secured by the delegation of works to different committees into which the legislative house is split up.

(4) Certain rules are adopted for bringing any discussion to a close so that speeches of members may not drag to an inordinate length of time.

(5) "It is an essential part of democracy that minorities should be adequately represented". Unless this is done the legislature will be the most undemocratic.

Bicameral system of legislature.

The legislature of most states of the world is divided into two parts, thus making it two-chambered or bicameral, so that the business may be transacted with caution.

Reasons for its adoption.

The chief advantages may be stated as follows :—

- Check against the danger of hasty or ill-considered legislation.** (a) A bicameral legislature prevents rash and hasty laws from being passed. There shall be a healthy rivalry between the two houses, with the result that the measure passed by one house will be subject to a careful scrutiny by the other house.
- Safeguard against legislative tyranny.** (b) A bicameral legislature is the best way to protect the individuals against the despotism of a single-chambered legislature. A single house proves itself rash, irresponsible and despotic. The very fact that one house is supreme in lawmaking and that there is no other body to sit in judgment on its action, degenerates it into a tyrannical house.
- Balancing of conservative and radical views.** (c) A correct interpretation of the general will is made possible in a bicameral house. If the two houses are chosen at different times and in different ways, they will not forfeit the confidence of the masses. Rather the conservative and radical elements will be harmonised and real progress ensured.
- Special significance in a federal state.** (d) It is indispensable in federal states where a second house provides a means whereby the member-states, as distinct entities, may be more distinctly represented,

(e) In every state there are dissimilar interests like labour and capital which may be provided with separate representation in a two-chambered legislature.

Labour and capital may be adequately represented.

(f) Finally, it maintains the independence of the executive. A democratically constituted house, representing the popular will, might subject the executive to needless control and thus impair its efficiency. Two houses, working under checks and balances, will give a greater freedom to the executive.

Independence of the executive maintained.

A bicameral house is a historical development, it is a later-born device, the states of the past holding to the unicameral system. It was found wanting, liable to be swayed by passion and prejudices. It may represent the opinions of the electorate at a particular time and on particular issues. But there may be a divergence between its opinion and that of the people whenever new questions arise. The remedy is to have too frequent elections (admittedly inadvisable) or the public opinion will not be reflected in the legislature. The argument urged against the bicameral system was that it was an assembly divided against itself, discord was inevitable "and the will of the people will be paralysed by inaction." The eighteenth century view that division of the legislative assembly into two houses was a division of the sovereignty has, however, been

exploded. It is only a distribution of governmental powers and no dividing of the sovereignty.

If the advantages of the bi-cameral legislature are to be real, the two houses should not be identical in composition. According to Bluntschli, the upper house should represent special classes, interests and political units which, left to the chances of election, may remain unrepresented. The lower house would, however, be a representative body, the representatives being elected directly by the entire body of the electorate.

Three principles may be followed in the composition of the upper house, namely, hereditary office, appointment, election or a combination of all three. In some countries (as in England) a proportion of the members of the House of Lords hold their office by hereditary right. Where appointment is resorted to, it is usually controlled by the executive or the tenure of office is rather long. Election, direct or indirect, is used in many states in the continent of Europe as well as in America. But to avoid the upper house being a duplication of the lower, the indirect election is the general custom. A variation in principle is also secured in some states by giving it a longer lease of life or by partial renewal (as in France where one-third of the membership of the Senate is renewed every three years).

Composition of the Lower House. Modern states are in substantial agreement as regards the composition of the lower house. The principle is that the members are chosen by direct election, for a short term, on the basis of an extended franchise. If the lower house eclipses the upper in respect of political powers, it is because they are the direct representatives of the people enjoying universal suffrage.

Relative powers of the two houses. In theory, the two houses are co-ordinate or co-equal in the process of lawmaking. Either house may originate a bill or propose amendments and both houses must agree as regards the adoption of any measure or any amendment. The one notable exception to this equality of powers relates to bills dealing with the raising and spending of public revenues. The lower house is given a preponderance over the upper. The reasons why the former house has a greater control over the latter are :—

- (a) In non-financial legislation the two houses may be made co-equal in powers and even if they fail to come to an agreement, matters remain where they are. But it is entirely different with regard to money bills. If the measure passed by one house is rejected by the other, a deadlock is created and all public service would come to a standstill. Hence, one of the two houses must

have a priority for smooth conduct of business.

- (b) Of the two houses, the lower, which is a directly representative body, is regarded truly as the custodians of the public purse, and theirs is thus the final decision. The disability under which the upper houses of the leading states of the world work is of different kinds and degrees. The British House of Lords can not originate, amend or reject a money bill. In France, the Senate is forbidden to originate, but it can reject financial measures. But it is doubtful whether, in strictness, it can amend or add to money bills. The American Senate can not originate money bills, but it uses its power to amend or reject so freely that its power is really great.

Excepting this reservation with regard to money bills, the different houses have different authorities. The growth of democracies has, however, shifted the balance of power from the upper to the lower house. The only exception to this is the position of the United States Senate. Its control over treaties and appointments, its longer term and select membership, its federal character and its historical antecedents have all combined to give it a prestige and power which is considerable. It is indeed difficult to find any upper house in the world which is an exact counterpart to the American Senate.

Direct and Indirect Election.

When voters vote for the candidates themselves, election is direct. But when a body of voters, in a constituency, choose a smaller number of intermediate electors who finally elect the representatives or other officers to be chosen, election is indirect. One of the means adopted for reducing the evils of extended suffrage is to employ indirect election. The select body of persons are expected to act in a more responsible way and they are supposed also to be men of greater ability than the masses. The evils of hasty heat are also considerably minimised as the objects of popular choice are confined to a select body of men.

With a highly developed party system indirect election is a mere superfluity as the intermediate electors may be chosen under party pledges. The idea of indirect election is also repugnant to the spirit of modern democracy. If a man is fit to choose an intermediate elector, it is argued, he is also fit to choose the representative. Lastly, indirect election paves the way for bribery as the candidates can easily approach a smaller number of electors and cajole them into voting in a particular way by offering tempting terms.

Direct Legislation. Initiative. Referendum. Plebiscite.

The need for direct legislation (i.e. law-making by

the people themselves instead of entrusting it to the legislature) is an outcome of democratic idea of self-government. It is a movement towards direct democracy. People want a direct share in government and they are not always satisfied with the control which they indirectly exercise over the government. By jury service the electorate directly exercise judicial powers. They want a direct participation in the making of fundamental laws. Direct legislation prevails in Switzerland. Here referendum is compulsory in respect of constitutional questions only, but in respect of others it is "facultative". Rousseau regarded it as the true expression of popular sovereignty. In the Ecclesia, in ancient Athens, all free citizens met together and decided general questions of war and peace and voted on all matters before that body. But in modern states with a numerous population such a gathering of the free citizens is a physical impossibility and consequently law-making has been delegated to representative assemblies. These, however, are viewed with distrust by the people at large and hence the agitation for direct legislation.

Direct Legislation, its impossibility in modern states.

This takes the forms of—

- (a) **Initiative.** The initiative by which a given number of voters may petition the legislature to cause a proposal for legislation to be subjected to popular vote. Under a "formulative initiative" the details of the bills are drawn up

by the voters, to be voted upon by the electorate.

Referendum.

- (b) The referendum in which the proposed legislation (or amendment) is submitted to the popular vote and becomes law if ratified by the required majority.

Plebiscite.

- (c) The plebiscite in which a measure is submitted to popular vote. The decision, however, has no binding force. It simply serves as a guide to the policy of the government.

Advantages of direct legislation

The advantages claimed for direct legislation are :—

(1) Apathetic legislatures may be forced to act in a special way or may be prevented from acting in a way that may not reflect the general will.

(2) The people are not as easily influenced in an improper way as the legislatures are.

(3) It stimulates public interest in government,

(4) Direct legislation in "municipal referendum" (i.e., in local affairs) may produce laws best suited to meet local requirements (creation of local debts for works of local public utilities etc).

The disadvantages of direct legislation are :—

Disadvantages of direct legislation.

(1) The majority of voters take very little interest in such matters.

(2) The making of laws requires special training and experience and the

interest of the society is safer in the hands of a properly constituted legislature than when it is submitted to the hazards of a popular vote.

(3) It destroys the sense of responsibility of both the legislative and executive organs of government.

(4) Finally, laws involving complicated social and economic matters can not be framed such that their acclamation by a simple yes or no will indicate the general will of the people.

Functions of legislatures.

The functions of lawmaking bodies may be classified as follows :—

(1) They formulate the laws of the land, making new laws and repealing or amending obsolete ones.

(2) They control the finances of the state. They decide how the public revenue is to be raised, determine its amount and the purpose of the expenditure.

(3) They also make their influence felt in international relations of the state. By exercising control over the finances, they control the actions of the ministers who are in charge of foreign relations.

(4) They exercise also a variety of powers, not strictly legislative, such as deciding contested elections, trying their own members guilty of improper conduct, impeaching state officials and exercising of judicial powers. They also share with the executive the power

of appointing administrative officials. They can control the administration in various ways.

Process in legislation. One important device employed by the states to prevent the legislatures from acting on the spur of the moment is to require a bill to be voted upon, not once for all, but at three separate readings or intervals of time. This may be illustrated from the system obtaining in England. In the British

First reading. House of Commons, "the member who desires to introduce a measure gives notice of his intention to do so." He then moves for leave to introduce the bill at the appointed time.

Second reading. The bill then is delivered to the clerk of the House by whom its title is read out.

The *First reading* takes place without amendment or debate. It is then printed and a day is set apart for the second reading.

Committee stage and On the occasion of the *Second reading* a vote is taken on the question of its being read for the second time. Next, the bill has to go to a committee where it is discussed threadbare, clause by clause, and possibly it is amended. This is the

Third or final reading. *committee stage*. At the conclusion of this stage, a day is set apart for the *third or final reading* when it is presented to the House in the revised form. Practically the same procedure is followed with regard to bills presented in the House of Lords.

Minority Representation :

J. S. Mill said that "it is an essential part of democracy that minorities should be adequately represented". But the present system of election is most undemocratic as in each electoral district there remains a large number of electors who vote for the defeated candidates and as such remain unrepresented. This can be aggravated if those who are in power constitute the constituencies such as to make the most of the votes of their adherents and to make the least of the votes of their opponents. This practice is known as "gerrymandering".

What is, therefore, most desirable is that "every or any section would be represented, not disproportionately, but proportionately". "A majority of the electors would always have a majority of the representatives; but a minority of the electors would always have a minority of the representatives". Otherwise, the majority party would capture more seats than it is entitled to, and there shall be a tyranny of the majority.

Various devices have been used to provide the minorities with representation. If the scheme allows some representation to those who are in a minority, but not in an exact proportion to the fraction they form of the total voting strength, it is a simple system of minority representation. If, on the other hand, each party or

Importance of minority representation.

Minority and proportional representation.

section is given representation in proportion to its voting strength to the total voting power, the scheme is known as proportional representation.

Schemes of Minority Representation.

A few of the schemes may be noticed.

(1) **Plan of "limited voting".** Under this system, each voter is allowed fewer votes than there are places to be filled and this results in the election of some minority members (unless the majority party is so strong as to divide its votes and even then win). Obviously, this would not apply to single-membered districts, but to districts from which more than one candidate is to be elected. This plan was tried in England from 1867 to 1885 when voters in places sending more than two members to Parliament were allowed one vote less than the number of members to be chosen. The objection to this system is that it provides for a limited representation of minorities, but no proportional representation.

(2) Another device is "**Cumulative voting**". In this plan, each voter has as many votes as there are candidates to be elected and may distribute his votes as he likes. If a minority concentrates i. e. cumulates its votes on one candidate, it may secure his election. The objection to this plan is that it gives rise to wastage of votes and popular candidates will poll an inordinately large number of votes, while the less popular candidate will

**Limited
Voting
Plan.**

**Method of
Cumulative
Voting.**

fail to secure an adequate number to qualify him to become elected.

(3) Another system of minority representation is known as the **Preferential system**, otherwise known as the **Hare Scheme** (as it was propounded by an Englishman named Hare), or **Andræ System** (as it was introduced into Denmark by Andræ). The whole country may be treated as one constituency and each voter has only one vote. But he is allowed to indicate his choices of many candidates by naming them in order of preferences. The total number of votes cast is divided by the number of seats to be filled and the quotient (called electoral quota) is thus the number of votes necessary to elect a candidate. As soon as a candidate gets the quota, the surplus votes are handed on to the elector's second choice and so on down the list until the required number of candidates have been declared elected.

The merit of this plan is that there is no wastage of votes and Mill's praise of it is unqualified. He places it "among the very greatest improvements yet made in the theory and practice of government". The advantages are many :—

**Its merits
and**

- (a) Every considerable minority is represented.
- (b) Every elector gets a real representative.
- (c) The candidates having necessary intellectual qualifications have a chance of being returned.

- (d) The character of legislative body is elevated as it is filled by men of real merit.

The objections to this plan are :—

- (a) The complexity of the scheme is a vital **demerits.** objection. It is not understandable by the masses and adverse critics have denounced it as an "arithmetical jungle".
- (b) There is also an element of chance that enters into and vitiates the whole scheme.
- (c) It is not capable of being applied in large countries where a central polling station and a recount are well-nigh impossible.

(4) **The "List System"** of proportional representation. Under this system not only is the minority represented, but each minority party is represented in proportion to its share in the total population. "A certain proportion of the voters may nominate a number of candidates not exceeding the number of places to be filled. Each voter is allowed to cast as many votes as there are representatives to be chosen, distributing them at will, but not cumulating them on any one candidate. The number of votes necessary to elect is determined by dividing the total vote cast by the number of places to be filled. The total vote cast by each party is then divided by the electoral quotient, and the result is the number of representatives to which each party is

**List system
of Proportional
Representation.**

entitled. Any deficiency is supplied from those parties having the largest fractional quotas".—Garner.

The chief objections to this plan are :—

- (a) A legislative body, proportionately represented, will mean a bandying of parties, one against another, and all sorts of pernicious class legislation will emanate.
- (b) "It is to organise disorder and emasculate the legislative power".

Representation of Interests.

Various methods have been adopted to provide for the representation of various interests in a state. In the old Prussian constitution, the interests of the upper classes were secured by dividing the voters into three groups, not numerically, but according to wealth. Each group represented one-third of the taxable property of a locality. And each group elected one-third of the representatives or officials to which the locality or district was entitled. A comparatively small number formed the first group ; a much larger number of well-to-do people, the second group, and the great majority of citizens formed the third group.

Another modification of the scheme of minority representation is to represent separately the important classes, professions or interests in a state. The three

estates in the Middle Ages were the clergy, nobility and commons and they received distinct representations. In the upper houses the landlords, churchmen large tax-payers and the representatives of the army and navy and also men sharing literary or scientific excellence were chosen to represent special interests or classes and not the general population.

CHAPTER 9.

The Legislature (continued).

Contents : Qualifications and disqualifications of a Representative; relation between the representative and the electorate; instructed *versus* uninstructed representation; the Electorate; basis of franchise; is suffrage an inherent right ? Compulsory or optional voting; plural and weighted voting; public or secret voting; woman suffrage.

Qualifications of a Representative.

Every state insists on certain qualifications being possessed by men to qualify them to become eligible to hold the office of representative. Along with these qualifications, a number of disqualifications are also prescribed.

Qualifications of representative

The qualifications may be broadly indicated as follows:—

(1) An alien is precluded for filling a seat in the legislative body as he has no abiding interest in the state and as it is not desirable that he will participate in the discussions of weighty secret and other interests of a state. Formerly, natural-born citizens alone were eligible, but now the right has been, in many states, extended to naturalised citizens.

Citizenship.

(2) The attainment of a certain minimum age is

also insisted upon. The age of majority which is 21 years of age is the general limit, but in some states a higher age limit is fixed. Again, the age for the membership of the upper house of the legislature in some states is still higher. The idea underlying this restriction is that the powers of discretion do not develop until after the lapse of some years.

(3) A candidate must be a resident of the constituency which he represents in the legislature. In such a case he will be more intimately acquainted with the needs and grievances of a locality and feel a greater interest than a non-resident member. The residence requirement is non-existent in England and non-residents frequently represent constituencies.

The advantages of the second system are :—

- (a) Able statesmen can come in. They show broad national views on important questions and are free from the tyranny of local interest.
- (b) Inferior men are prevented from being returned. All localities do not produce great men and by limiting the choice of representatives to residents of the areas, the legislature may be filled with men of mediocre talents.

4. At one time the property qualification demanded of a candidate was very high as ownership of property was supposed to be the best evidence of legislative fitness and also

Property qualification.

because the leisured classes of people had greater opportunities to serve the state by their counsels than people less rich who had to work for earning their livelihood. With the progress of the democratic movement the property qualifications have been now practically removed.

Disqualifications of a Representative.

The participation in legislative affairs and the holding of administrative offices are regarded as incompatible and hence holders of certain offices are disqualified from filling seats in the legislature. In cabinet forms of government, however, this disqualification is not as prominent as in Presidential forms. Religious disqualification at one time a real stumbling block, is now entirely removed.

Relation between the Representative and the electorate :—

Instructed versus Uninstructed representation.

Should a representative be bound by the instructions of his constituency and vote in the legislature in the way he is called upon to vote? This is the theory of instructed representation and the representative is a mere mouthpiece of his constituents, "a living gramophone", a vote recording machine. The other view, that of uninstructed representation, is that he is not a deputy, a delegate, but that he is a man of light and

leading and should be allowed to *exercise his own* judgment upon matters that come up for discussion. In other words, he is not to be bound by instructions.

The consensus of opinion is that a representative should not be fettered by instructions from the electors. He should be allowed to possess the fullest liberty of thought and action. He should not, of course, disregard the wishes of his constituency, but should try to reconcile his views with theirs as far as practicable. In case, however, no such reconciliation is possible, he should act independently, as he is a wiser person than the average voters, has knowledge in statecraft and is best able to judge the intrinsic worth of a measure. It is he, and not the voters, that has the advantage of hearing a proposal ably discussed from all points of view in the legislative chamber.

Tenure of office of a Representative.

There must be some limitation to the tenure of the representative. If he were to hold his seat for an indefinite time his responsibility to the constituency can not be adequately enforced. Elections will be periodical of course, but not too frequent. Frequency of elections will create agitations and people will be tempted to introduce drastic changes in legislation and administration of public affairs. The tenure, in brief, should be neither too short nor too long.

Electorate.

The extension of franchise is a feature of modern political development. The participation of the people in governmental affairs dates with the **Basis of franchise** emergence of national states. In the days of feudalism, the right to vote was limited to the land-owning classes. With the decay of feudalism, this was changed into property qualification which, with the triumph of democratic movement, has been reduced to a minimum.

The French Revolution brought into prominence the doctrines of natural rights, equality of men and popular sovereignty. Articulate opinion demanded universal manhood franchise. Almost all states were influenced by a general democratic tendency of the nineteenth century. The result was that franchise became more and more extended and agitation for a still wider and more equal suffrage is being kept up.

Even with the progressive widening of the franchise, the electorate form a definite percentage of the total population. In the liberal states, for instance, the electors form about 20 per cent of the population. Political expediency requires that certain limitations will be imposed upon franchise and these may be summarised as follows :—

- (1) In voting is required political judgment and all states require the attainment of an age when this power develops. The universal practice is the **Age.** attainment of a minimum age limit as a

condition of franchise. The minimum age is 21 years and the maximum ranges from 21 years to 25 years. In Switzerland, however, the minimum is 20 years. This qualification removes almost half the population of a country from franchise.

(2) At one time a high value was put to political authority which was identified with military power and

the earliest electors were naturally free men

Sex. in arms. In modern states also women were, for a considerable time, holding a position of political and economic dependence and they were as a class, excluded from franchise. There were occasional and rare exceptions to the general rule and in some states women, by descent, might occupy the throne. But the entire sisterhood suffered from a permanent disability. The advocacy of universal suffrage and the incorporation of the women folk in the programme dates from the latter half of the 19th century. The movement for women franchise is steadily gaining ground and there has taken place extension of suffrage to women throughout Europe and America. In 1918 the parliamentary franchise was conferred upon British women over 30 years of age and in 1928 the age limit was reduced to 21 years, the same as for men. In Germany women over 20 years are given full and equal suffrage. The countries where women have not yet acquired any suffrage or equal suffrage with men are France, Italy, Spain, Portugal, Bulgaria, Netherlands and Yugoslavia.

(3) In most states, suffrage is restricted to natural-born and naturalised citizens. In some states aliens are allowed to vote when they declare their intention to become citizens. An allied requisite is residence for a definite period in the state and in the district in which one offers to vote.

(4) Voting at one time was regarded as the accompanying right of property as property-owners were supposed to have a permanent interest in the state. This theory has now largely disappeared. Paupers dependent on the state are of course excluded, but the property qualification has now practically disappeared.

(5) Religious qualifications for voting have disappeared (in some American states one who does not believe in a God can not vote). Certain persons are excluded from suffrage, namely, confined criminals, idiots and lunatics and certain educational tests such as ability to read and write are laid down. In some states (as in England) graduates of universities are qualified voters and clergymen, sheriffs and other officials are disqualified. Again, citizens on active military duty lose, in some states, their votes. The registering of a voter's name in the electoral roll is a requirement.

Is suffrage an inherent right of every citizen ?

From the above discussion it is clear that suffrage is by no means a natural and inherent right in a citizen.

As a matter of fact, every state has prescribed certain conditions on the fulfilment of which one may be admitted into suffrage. Suffrage is a privilege conferred upon a citizen by the state, it is no mere right by virtue of his membership of the state. That suffrage was a natural and inalienable right of a citizen was a logical outcome of Rousseau's doctrine of popular sovereignty. This doctrine so vehemently preached in France was, however, never proclaimed in the French constitution which was drawn up in the Post-Revolution period. The prevailing view is that suffrage is a privilege which is conferred by the state upon such persons only who are expected to exercise it for the public good. It is by no means a natural right which belongs to all citizens of a state without discrimination.

Should voting be compulsory or a moral duty ?

An entirely different question is whether a voter should be obliged to vote under compulsion or whether voting should be a matter of option with the voter ? J. S. Mill was an advocate of compulsory voting. But in practice it has been rarely adopted by the states. The conduct of a citizen, neglecting to discharge his civic duty, may be reprehensible, but the business of the state is never to punish him for non-performance of the duty. The objections to compulsory voting are, firstly, voting would be degenerated into a form and no

eye may be kept to public good and secondly, votes might come to command a market value.

Plural and Weighted voting.—*The fundamental principle of democracy is one man one vote (also woman when she is enfranchised) and no body to have more than one vote. In some states, however, plural or weighted voting has been adopted. Thus in Belgium, every male citizen aged 21 years has one vote, he has an additional vote if he is 35 years of age and father of legitimate offspring and pays a tax of 5 francs. Two more votes were given to citizens of 25 years of age possessing certain educational qualifications. Plural voting was, however, abolished in 1921 as it was considered to be an undemocratic measure.*

J. S. Mill advocated weighted voting to educated men as a "counterpoise to the numerical weight of the least educated". This also could counteract the evils of universal suffrage, and prevent the ignorant masses from overriding the intelligent few.

**J. S. Mill's
defence of
Plural
voting.**

The objections to plural voting are the difficulty of finding any just test for determining the weight of different votes. It is also argued that academic qualification is not always an evidence of political capacity. The last war is responsible for bringing into existence many democratic changes and one such change is that weighted or plural voting has practically disappeared. It exists, in a very limited form, only in England.

Should voting be public or secret ?

J. S. Mill argued in favour of public voting. "The duty of voting, like any other public duty, should be performed under the eye and criticism of the public", argued Mill. Another eminent thinker has characterised secret voting as "unreasonable and immoral." Voting should not be resorted to in a surreptitious way. But public voting restricts the opportunities for voting according to one's personal likes. There is always the likelihood of intimidation and working classes run the risk of losing their jobs if they do not vote for their superiors. Hence in modern states secret voting is the practice and this has minimised abstention from voting to a large extent.

Woman Suffrage.

**Arguments
in favour
of woman
franchise.**

The arguments that have been put forward in defence of woman suffrage are briefly stated as follows :—

**Sex is a
most artificial
ground
for disqualification
of women.**

(1) Sex is an accident of birth and should not form any logical ground for granting or withholding the suffrage to a person who is otherwise qualified. Differences in sex are like differences in the colour of the hair. Women are physically weaker than men and therefore require the protection of law more than men and hence they must be represented in the legislature.

(2) Women need franchise as a defence against

their persecution by tyrannical class legislation which in the past was directed against them. To-day the women compete with men in the industrial world and learned professions. As wage-earners they should be allowed to safeguard their position against capitalistic employers by being provided with suffrage. In other words, women have the same right as men to be well governed, and good government is the object of representation.

Woman franchise as a measure of self-protection and good government.

(3) Now that all civil and legal disabilities, under which women had to labour in the past, have been removed, the retention of the political disability is an anachronism. This is inconsistent in view of the fact that women are allowed to become queens, but the simple suffrage is denied to the general body of women. Elizabeth and Victoria have been the best of sovereigns England has ever produced, but their sisterhood has been deprived of the franchise, although they have contributed to the financial upkeep of the state.

Anomaly of queens. Persistence of political disability highly illogical.

(4) The admission of women into franchise would ennoble and purify public life. Women are morally superior to men and they will enhance the tone of public life. It has been argued that women, when enfranchised, will vote as dependents and this will therefore duplicate the voting strength of their male relations.

The wholesome and purifying effect of woman franchise.

Mill's reply to this is that even if women vote as dependents there is no harm. Matters remain where they are. But if some women will vote independently a great good will follow. And in a truly classic passage he says "It is a benefit to human beings to take off their fetters, even if they do not desire to walk".

Arguments against woman franchise.

Arguments against woman franchise. The arguments that have been urged against woman franchise are briefly the following :

1. She is more fitted to shine in the home than in public duties and political struggles. If she is allowed franchise womanly virtues will suffer and the loss will not be offset by the gain in political capacity.

The manly character of the state. 2. The state is masculine and will be weakened by the admixture of the feminine element.

Women easily swayed by political passions. 3. There is the danger that political struggles would become more passionate and less rational. Women's cleverness becomes dangerous intrigue.

Neglect of the children 4. The care of the young children will be neglected. Female suffrage will produce dissension in a family by setting the male against the female members.

An eloquent tribute has been paid to the women

who, excluded as they are from a direct share in politics, have exercised a most ennobling influence on the public welfare. ".....Statesmen have often owed much to that quieter influence of women which no history records : they have found in their homes the peace which compensated them for the turmoil of public life, and strengthened them afresh for their duty. Woman's gentleness has softened their savage humours, her prudence and her sense of conduct have kept them clear of extravagance and crime, and her courage has saved them in time of need. For woman's power is never so great or helpful as in time of suffering and danger. More patient than man, she can help him to bear suffering without being humiliated by it : her devotion rouses him to sacrifice himself for his country, and her admiration of his courage incites him to deserve it" (Bluntschli).

**True place
of women**

CHAPTER 10

The Executive.

Contents : Principle of organisation; Plural *versus* singular executive ; Methods of choice of the executive; the executive power; the veto power.

Executive.

The word is used in various senses. In the broadest sense, it includes all government officials except those who act in legislative and judicial capacities.

Its meaning. Thus from the supreme head of the executive down to humblest police constable (postmasters, revenue officers, soldiers etc.) every one is included in the designation as they are all concerned with the execution or carrying out of the law of the land. In the narrow sense, it means the supreme head of the administration, whether an individual (as the American President) or a body of individuals, (as the British Cabinet) who control the administration. According to another view, even the judges are included as they are responsible for the interpretation of the law.

One fundamental difference between legislature and executive is that the former body consists of many persons while the latter consists of as few persons as possible. The prime requisites in an executive are a singleness of purpose, a promptitude of decision and a vigour in action

**Singular
Executive
versus
Plural
Executive.**

and a single person or a small body of persons is more fitted to discharge these duties than a large number. Napoleon once said that "one bad general is better than two good ones." There is a strong presumption against a plural executive and the only exception to singular executive is found in Switzerland where the supreme executive authority is vested in a board of seven persons.

Different methods of appointment of the Executive

The four different methods of appointing the executive are stated below .—

(1) The hereditary king enjoys a lifelong tenure of office and it also passes to his descendants. Nothing can be said in favour of this principle from the rational point of view. A hereditary monarch is as absurd as a hereditary poet or mathematician and is repugnant to the advanced political sentiment of a people. Where this kind of executive persists, the powers have been circumscribed by the constitutional laws. The constitutional monarch is thus a nominal and not a real executive. He reigns but does not govern. This modified kind of hereditary monarchy is supported on many grounds. It lends stability, permanence, continuity, dignity and a majesty to the government. The state acquires a prestige in its dealings with foreign states and this has a great diplomatic value. It creates a respect for autho-

The hereditary principle

city and law. The people are induced to make the highest sacrifices in times of emergency, specially when their sense of patriotism is roused by inspiring speeches from the throne.

2. This principle is opposed to the hereditary one, the executive being elected by the direct vote of the people. This is perfectly in keeping with the democratic principle or popular government. The masses take a keen interest in public affairs, public opinion is elevated and the people get the best political education. The responsibility of the elected executive to the electorate is most effectively enforced. The governors of the separate American commonwealths of the United States are directly elected by the people.

As against these advantages the objections to direct election are formidable. These are: the incompetency of the masses to judge the merits of the candidates, their liability to be influenced by party leaders; the likelihood of mischiefs of foreign intrigue and internal turbulence and the chances of corruption and demoralisation.

3. Here the masses choose an intermediate body of electors who finally elect the executive. It has an advantage over the direct system inasmuch as the tumultuous agitation attaching to the direct election is avoided. The intermediate body is more fitted and better equipped than the masses in the execution of their choice. But this

**Direct
election
by the
people.
Its merits
and**

demerits

**Indirect
election
of the
executive**

advantage is largely neutralised as the intermediate voters are liable to be chosen under party pledges. The American President is elected by an indirect election, but the electoral college has become rather mechanical and the election becomes practically direct.

4. This system prevails in France where the President is elected by the two houses of the legislature sitting together as a National Assembly. The chief objection is that it militates against the theory of separation of powers. The executive is made to be subservient to the wishes of the legislature. The legislature also runs the risk of being demoralised as the ambitious candidates may unduly influence it by offer of rewards. Lastly, the normal duty of the legislature is law-making and it is likely to be prejudicially affected if it is provided with the power of appointment of the executive.

Powers of the Executive.

The powers exercised by the executive, though differing in detail in different states, show a marked similarity and may be broadly indicated under the following heads:

1. This includes the negotiation of treaties, appointment of diplomatic officers and to wage defensive wars. Every state, however, has laid down certain constitutional checks on the exercise of these powers of the executive.

Diplomatic power

2. This includes the assembling, adjourning or dissolving of the legislature. The right of initiating legislation, directly or indirectly, the right of promulgating laws and some sort of veto power are also included.

Legislative power

3. The head of the executive is usually the commander-in-chief of the military and naval forces. And in that capacity he appoints and dismisses officers, supervises the martial law and holds immense power in times of war.

Military power.

4. The executive head has large powers of appointment and removal of officers engaged in civil administration. He has to see that all laws are properly administered and is provided with some kind of ordinance power which enables him to issue general rules not dealt with by the legislature or by way of supplementing existing laws.

Administrative power

5. The executive heads appoint judicial officers. They also possess the power to grant pardons and reprieves as mercy ought to be tempered with administration of justice.

Judicial power.

The veto power.

In order that the measures passed by the legislature may become valid the universal practice is to make the approval of the executive essential. The power of the executive to disallow the legislative acts is known as the veto. In America it is called the President's "qualified negative."

Where this power is unlimited and the legislature cannot override it (as in England, the power of the British Crown) the veto power is "absolute."

It is "qualified" because the legislature can override the power of the executive to disapprove any measure, if an overwhelming majority of members of the legislature (two-thirds majority of each house of Congress in the U. S. A.) agree to repass the measure already disallowed by the executive. Finally, it is "suspensive" (as in France) as the object of the veto is to hold a measure in suspension or abeyance for sometime only and thereby afford an opportunity to reconsider the measure once disallowed by the executive head. If such a measure is repassed by the legislature by an ordinary majority, it takes the legal effect.

CHAPTER 11

The Judiciary.

Contents : Evolution of the Judicial organ of Government ; functions and requisites of the Judiciary ; relation of the Judiciary to the executive ; relation of the Judiciary to the legislature ; appointment and removal of judges ; organisation of the Judiciary ; administrative law and administrative courts.

Evolution of the Judicial organ of Government.

In the primitive stages of mankind all disputes between man and man were settled by compromise or by force of individuals and of families of individuals. It was after lapse of considerable time that the state enters into the field as an arbiter of custom which among the primitive races exercised the force of law. The state began to adjudicate disputes, create laws and punish offenders. The judicial function and the other political functions of the state, were, however, not separated and this is why the kings were not only the makers of laws ; they with their advisers were the administrators and adjudicators of laws. The differentiation of judicial function as a distinct branch of the state dates from the recognition of private rights of property and the ushering of a complex social organisation. This evolution of the separation of the judiciary was a slow and a gradual process. But the

separation is, in modern states, by no means complete and the executive participation in adjudication (the pardoning power of the executive) and the exercising of judicial powers by the legislature are the remnants of the state of things under which all the three functions of government were co-mingled.

Functions and requisites of the judiciary.

The primary function of a judge is the application of the laws of the land in specific cases. He decides the facts in a given case, the law that is applicable and pronounces his verdict which naturally affects the legal rights of the parties involved. Judicial function is then a highly technical function and there must be a display of specialised intellect. Moreover, the judge has to exercise his discretionary powers in interpreting the laws or in applying the general principles of laws to particular cases. In this capacity the judge becomes also a law maker, not of general principles, but laws that cover particular cases and such judicial decisions are called case-laws or judge-made laws. The most important requisite in a judge is a sound knowledge of the law, law as it is, not as it ought to be. In most states, this is secured by recruiting judges from the ranks of the skilled lawyers.

Another requisite is that the judges must be impartial. Unless judges possess a strict integrity, there shall be a travesty of justice. To ensure this in well-ordered states, the judges work under a sense of

independence, enjoy a permanent tenure of office i. e., hold office during good behaviour and earn an adequate salary so that they may be above temptations.

The judges are protected from the encroachments of the executive and the legislature by enjoying a certainty of tenure and an adequate salary (irrespective of the output of their decisions). But measures have also been devised and safeguards adopted so that members of the executive and legislative departments may be protected from the tyrannical use of the independent powers of the judiciary. This leads naturally to an examination of the relation :—

- (i) *of the judiciary to the executive and*
- (ii) *of the judiciary to the legislature.*

Here two important questions arise :

(i) Relation of the judiciary to the executive.

- (a) The judicial power of the executive and the extent of the control of the executive over the judiciary. To a large extent, the executive control is inevitable. The executive is given powers of appointment of judicial officers. It also rests with the executive to execute or carry out the decisions of the judges. The judicial powers possessed by the executive are a historical survival of the original and unlimited powers of the executive. "Treason laws, court-martial for military or naval offenders, and military law in times of riot or rebellion are

examples." The most conspicuous examples of judicial power of the executive are found in the continental states of Europe where series of administrative courts co-exist with the ordinary courts. The former type of courts is composed of superior executive officials (called administrative courts) and a special form of law (called administrative law) applied in the case of public officials.

- (b) The other question is the administrative powers of the judiciary and the extent of the judicial control over the executive. Both the English and the American practice is to subordinate the public officers to the ordinary courts whose jurisdiction is co-extensive with the state. In England, as in the U.S.A., every officer of the government is responsible before the law courts. In the words of Dicey "every official from the Prime Minister down to a constable or a collector of taxes, is under the same responsibility for every act done without legal justification as every other citizen." The legal immunity attaching to the British Sovereign and the President of the U.S.A. are exceptions of a singular nature and this legal immunity does not apply to any other public official, however highly placed he may be. Mention has already been made

of the fact that in the continent of Europe the ordinary courts have; however, no jurisdiction and they take no cognizance of the official actions of the executive and legislative officers.

The legislative control over the judiciary is apparent and is evidenced in the following cases :—

(ii) **Relation of the judiciary to the legislature.**

(a) the law which the court interprets emanates from the legislature.

(b) The judiciary cannot exist without legislative appropriations.

(c) Even the department of the judiciary is created by an act of the legislature (except the American Federal Judiciary created by the constitution).

(d) In most states the upper houses of the legislature retain certain judicial powers. In theory in England, the House of Lords is the highest court of appeal, but, in reality, the judicial powers are performed by the Lord Chancellor and four Lords of Appeals. By the power of impeachment (which has become obsolete because of the responsibility of the ministry to the House of Commons) which the legislature retains in some states the great officers of the government are controlled.

The other aspect of the question, namely, the judicial control over the legislature is a highly constitutional

one. This consists in the judicial declaration of laws passed by the legislature as void if enactment of such laws is in excess of the legal powers of the legislative bodies. The action of the legislature is pronounced as unconstitutional and therefore as invalid. The idea underlying this is that the constitution provides the organs of government with limited powers and it is therefore incumbent upon the courts to decide whether or not the legislature has confined itself to the limited province provided for it by the constitution. In continental Europe a different view, however, obtains. The national law-making body is a sovereign body and its decisions are, therefore, final and no court can question their validity or constitutionality. For instance, such is the vastness of the powers of the British parliament that it can do whatever it likes. It can make a man a woman, a woman a man.

Mode of appointment of judges :

The various methods that are or may be followed in appointing judges are as follows:—

- Appointment by the legislature.**
- (a) The objections in this mode are, first, that it is a violation of the doctrine of separation of powers; secondly, in the appointment of judges political considerations may predominate and inferior men may come to hold office.
 - (b) This method applies in the majority of American commonwealths but is unknown

Appointment by Direct Election.

in the European states. The objections are : first, the masses of voters are not the proper persons to go into relative merits of the candidates, and secondly, able and independent candidates may fail to secure popular votes and may be defeated by less competent candidates but more gifted in the art of vote-catching, and thirdly, impartial justice which is demanded of judges may not be possible as the judges, to ensure their re-election may be anxious to humour the voters and give those decisions only that will meet their approval.

Appointment by the Executive.

- (c) The consensus of opinion is to allow the executive to make judicial appointments which undoubtedly is the best system. The executive are better able than either the uninstructed masses or the legislative bodies to make the best appointments. As Garner says, "the method of executive appointment removes the office, to a large extent, from the low level of party politics, destroys the temptation of the judges to popular subserviency, and thus adds to the independence and dignity of the judiciary."

Removal of judges.

Every state makes provision for the removal of corrupt judges. In England, in the days of absolute

monarchy judges held their office at the pleasure of the king. From the time of William III, the judges were forbidden to be removed by the crown except on an address of both houses of parliament. Practically, the same principle is followed in other states of the continent of Europe. In the U. S. A. to remove a bad judge, impeachment is resorted to, the lower house of Congress preferring charges and the upper house trying him.

The Organisation of the Judiciary.

The principle that is followed differs, on the one hand, from that in the organisation of the executive power (which is vested in a single or few persons) and, on the other, from that which vests the legislative power in a numerous body. The judicial organisation rests on the collegial principle, the power being vested neither in a few nor in a large number of persons, but in a modest number. The persons, either singly or in a body, sit in tribunals. And the tribunals are arranged in a series of gradations from the lowest to the highest. At the apex is the Supreme Court which sits as an appealable body and hears all appeals preferred by the lower courts and its decisions are final. Also, civil and criminal cases are distinguished and for each there is a series of courts from the lowest to the highest. This general arrangement is also modified by a separation of judicial functions and creation of special courts. Thus the courts martial maintain army discipline, admiralty and consular courts

exist to meet the needs of foreign commerce, probate and divorce courts for regulating family rights and inheritance, ecclesiastical courts where church and state are not separated, administrative courts which are controlled by the executive department and exist for the trial of administrative officers guilty of the violation of the laws of the land in the discharge of their official duties.

Administrative law and Administrative Courts.

It has been already stated that in England and America all officers of the government (except the British Crown and the American President) are responsible for their official actions to the courts. But in the continent of Europe, the officers are not liable to the courts. A special body of law, called administrative law exists and specially constituted courts (composed mainly of members of the executive) try public servants who, in the discharge of their official duties, are guilty of violation of the law. In France there is a whole hierarchy of administrative courts which run parallel to the ordinary tribunals. This system of administrative courts originated in France, the home of absolute and highly centralised monarchy. Royal officials were substituted for the local courts that formerly existed in the country as a mark of extension of the royal authority.

The advantages claimed for this administrative system of law and courts are :

(1) A simpler law and procedure for public officials in their administrative acts.

(2) It conduces to elasticity in the application of the principles of justice and expediency. The subjection of the officials to the control of ordinary courts is prejudicial to prompt and vigorous administration.

The disadvantages of the system are :—

(1) Chance of conflict between the series of administration and ordinary courts in matters like jurisdiction.

(2) There is the danger that justice may not be secured in administrative courts if the policy of government demands a particular decision.

(3) Individual rights are jeopardised when the administration is both the offender and the judge of the offence.

(4) It tends to make the executive rather autocratic.

CHAPTER 12.

Political Parties

Contents : Political parties and democracy ; origin and development of the party system in England ; multiple *versus* the two-party system ; advantages and disadvantages of the party system.

Political parties.

A party may be defined as a body of individuals holding similar views on the leading political questions of the day and combined together to promote those views in the conduct of the business of the state. Although the parties remain outside the legal organisation of the state, they constitute the vital force that keeps the machinery of the state in operation.

Political parties and democracy.

There is a close connection between political parties and democracy. People living under a despotic ruler and having no legal voice in government, often have to resort to assassination or rebellion if they want to have the hateful ruler deposed. But such a drastic method rarely helps in permanently establishing a popular government. The substitution of democracy for a tyrannical rule has been a slow process. The principles of election of representatives of the people, the widening of franchise and adoption of devices like

a written constitution, referendum and the like were means for perfecting the democracy which came to be established. But to enable it to function properly, some form of organisation became necessary so that the people might formulate and execute their will. Just as the efforts of voluntary associations were instrumental in establishing democracy, so these associations developed into political parties which made democracy workable. Political parties have, therefore, always existed in democracies.

Political parties not merely influence the government. They seek to make government. The primary business of a party is to influence the enfranchised body of the people who have the right of determining government. The party system implies an elective representative government and it develops when this kind of government is firmly secured. And all real parties are based on the principle which consolidates all the members within a party and divides it from other parties similarly formed.

In England the Exclusion Bill of 1679 was the cause of the formation of two parties. The bill was calculated to exclude the Duke of York (later James II.) from the throne because of his professed Romanism. Charles II dissolved parliament and the people petitioned the king for convening a new parliament. The "Petitioners" and their opposers (termed

Origin and development of parties in England.

"Abhorrers") were soon changed into "Whigs" and "Tories". The principle of the former was amelioration, that of the latter conservation. During the 19th. century the Whigs and Tories gradually developed into Liberals and Conservatives. "A Liberal is one who is more or less dissatisfied with existing conditions and desires to see them reformed". "A Conservative, on the other hand, desires to retain existing conditions and only to change them when it is clearly proved that the change will be beneficial". Besides these two parties there existed before the war two other parties—the Irish Nationalist party (advocating the establishment of a separate Parliament and Executive for Ireland) and the labour party (advocating a socialistic policy and believing in trade unions, co-operative movement and so on).

The normal party strife was put an end to, rather suspended, during the period of the war. Since then, many transformations have taken place. During the period there was a coalition between the Conservatives and a large section of the Liberals, the remnants of the Liberals standing aloof. The Liberal party stands reunited again from 1922 and the labour party had a larger following than the liberals and formed the "Opposition." After the election of 1923, the Labour party formed the government, although it had not an absolute majority. In the election of 1925 however the Conservatives were returned with an absolute majority.

Multiple versus the two-party system—the determination of government in a two-party system.

When either party falls from power, the other and opposing party resumes it. The leaders of the 'opposition' are the prospective leaders of the alternative government. The opposition is itself a part of the machinery of government. The party in office works with concentration of authority. The opposite party also works with a concentration of responsibility which it can enforce as soon as it returns to power.

But a two-party system has some drawbacks. It puts definite limits on the political expression of public opinion. Compromises have to be too frequently made and the electorate have to sacrifice their differences in the interest of a general cause. The real crux of the two-party system is the maintenance of its integrity. The multiple-party system, however, has no such problem. Under it groups can be easily organised and they easily unite and separate as changes in situation necessitate. In a multiple-party system no party can normally expect to have an absolute majority of its own. Both the tactics of parties and the whole mechanism of government fundamentally differ from those of a two-party system. The government of the day is the outcome of coalition of some parties which enter into bargains between them. It is thus a block rather than a party government. The government is

rather short-lived. The French Cabinet, for instance, is notoriously unstable as the supporters of government, when offended, join other groups to overthrow government. Governments, however, become sensitive to changes in public opinion. But there can be no continuity of policy and governments come and go with a dramatic suddenness,

Judging the relative merits of the two-party and multiple-party systems, it may be said that each has its own advantages and disadvantages and these are relative to the condition of public opinion, the intelligence and state of culture the people have attained.

A two-party system conduces to a stable government, but the citizen's choice is much narrowed. There is a blind devotion to party, an emotional loyalty instead of a rational choice. The party leader has also to pander to the whole platform of one side and profess a stubborn opposition to the other platform in its entirety. The leader under a multiple-party system openly bargains for support, his confrere in a two-party system has to passively accommodate himself. The two-party system, in its grossest form, is the "spoils system", a practice of bestowing public offices upon the victors as the reward for their work in winning an election.

Advantages and disadvantages of the party system.

Considerable differences of opinion exist as to the merits and demerits of the party system.

The defenders of the system point out the merits as follows:—

Merits. (1) Groupings of opinion are not artificial and bisection of human character squares with facts of life. People, constituted as they are, fall into four groups:—

- (a) Those who want to go back to the past methods and institutions (called the Reactionaries);
- (b) Those who want to adhere to the present institutions (called the Conservatives);
- (c) Those who want to reform present institutions and expand them (called Liberals);
- (d) Those who would abolish present institutions and set up a new order of things (called Radicals).

In practice, the former two act together in opposition to the latter two.

(2) It is the only system which makes democratic government feasible. Far from being inconsistent with democracy, it alone secures a stable government and enables the majority to express its will.

(3) Political parties permit of changes of government with change of public opinion. But the political machinery is left intact.

The opponents of the party-system are shocked by

the artificial agreement which it sets up and point out the evils resulting therefrom :—

(1) Party agreement is criticised as artificial. It suppresses the very freedom of individual opinion and action which is the essence of democratic government.

(2) Party-system is said to be inimical to democracy as it suppresses the expression of general will and sets up a sort of despotism.

(3) Since parties remain outside the legal organisation and machinery of government, they become irresponsible and offer opportunities for corruption and selfish monopolisation of powers.

(The student is referred to the book on Indian Administration for the treatment of political parties in India.)

CHAPTER 13

Public opinion (and Popular Government.)

Contents : What is public opinion ? Methods of expressing public opinion ; organs that formulate public opinion ; public opinion and popular government.

The essence of popular government is that it consists of the control of political affairs by public opinion and democratic or popular government, though variously defined, has one essential attribute and it is a form of government in which public opinion controls.

A thorough analysis of public opinion, a discussion of its nature, the conditions under which it may exist and the methods by which public opinion may be truly expressed, would be beyond the compass of this book. We can only indicate, in a brief outline, its nature and content and also how it constitutes the motive force in a democracy as popular government is based upon public opinion.

Public opinion, in its strictest sense, must be an opinion which is public and it must really be an opinion. And opinion does not become public merely on the score of it being held by a majority. In other words, the opinion of a mere majority does not by itself suffice and

**What is
public
opinion ?**

something more is needed. That the public opinion is quite different from the votes extracted from the people is quite obvious. In every nation there are multitudes who contribute nothing to its public opinion as they never give a serious thought to public affairs. They act under the direction of individuals or organisations who know the art of winning votes by resort to class cupidities.

Unanimity of opinion is neither required in public opinion. Rather, public opinion would be deprived of all value were there to be no dissent. The two negative aspects of public opinion, therefore, are :

- (i) Majority opinion is not enough for public opinion ;
- (ii) unanimity is neither necessary to constitute public opinion. What then constitutes public opinion ?

Rousseau's dictum that men, in forming a state, desire to enforce the common will of all the members and that this common will is the basis of political action, is what is connoted by the expression 'public opinion.' He goes on to say, that the votes cast by an assembly are not their personal wishes, but opinions of everyone in regard to the common will. It is this universal will that is carried out and though the minority may not share it they feel bound not by fear but by conviction, to accept it. Lowell has expressed it in a careful way thus : "A body of men are politically

capable of a public opinion only so far as they are agreed upon the ends and aims of government and upon the principles by which those ends shall be attained."

In brief, a political community as a whole is capable of public opinion when it is true of the great bulk of the citizens. Taken in this sense, public opinion is not strictly the opinion of the numerical majority as individual views always count. The opinion of a majority really means the effective majority.

Real public opinion means a rational decision on any subject arrived at by the bulk of the people with the help either of their own knowledge or by a careful weighing of evidence.

Methods of expressing public opinion. • The commonest and authoritative methods for expressing public opinion may be enumerated as follows :—

- Elections** (a) At the time of elections, the people must decide on the main question (say, whether A or B shall be the President of the American Republic and whether the Labour or the Conservative Party shall be entrusted with the administration of the country). The issues are framed by the political parties for popular decision. But the grounds of the popular decision are often obscure.

- Direct Popular action.** (b) Direct popular action which takes either the shape of a popular assembly with powers of debate and vote (or (c)) a ballot cast at the polls without a general meeting of the voters.)

The most familiar examples of popular assembly are the Athenian *Ecclesia* and the Swiss *Lands-gemeinde* and the town meeting of New England. Obviously, popular assemblies of this sort are possible when the citizens are compact enough to come together and small enough for hearing a man's voice. Excellent as the mass meetings of the citizens are for expression of public opinion, these cannot be applied to the whole nation or to a modern city which consists of a large population.

- Referendum.** (c) A popular vote without a mass meeting, at best, expresses an opinion on *the particular measure submitted to the people. There is no adequate opportunity of discussion as in a popular assembly. This popular vote, the referendum, is however capable of use on any scale and is destined to play an ever-increasing part in a country's government.

- Initiative.** (d) The initiative. The referendum is negative as by means of it the people can reject an act passed by their representatives which they do not like. Referendum gives them no power to legislate themselves and it is

for realisation of this object that the initiative has been devised; And states adopting this device authorise a certain number of voters to draft a law and demand a popular vote upon it without regard to the opinion of the legislature.

But the chief objection to both referendum and initiative is the lack of a thorough examination of the measure proposed. An active discussion of the measure may or may not have been made in the press or among the people. Few persons consider it their business to study it and in a democracy that which is everybody's business runs the risk of being nobody's business. In order to remedy this defect, some states require the initiated measures first to be presented to the legislature for debate, and it is for that body to submit the measure to the people together with an amended bill prepared by the legislature. How far then the popular vote signifies real public opinion? If the popular vote expresses an enduring opinion of the electorate it may be accepted as final until such time as their convictions do not change.

Organs that formulate public opinion.

(1) Existence of parties which bring public attention to a focus. Parties have become important instruments for carrying on popular government by concentrating opinion. They enable the voters to act in masses and they frame the issues

Parties.

for the popular verdict. "Their service is like that of the counsel who draw the pleadings and argue the case for the jury."

(2) Politicians also act as brokers of public opinion. In a modern industrial democracy the bulk of the **Politicians** people are absorbed in earning their livelihood and there is need for a professional politician (not a man who makes a living out of politics, but a man who devotes a large part of his life to politics) who expounds public questions or advocates a definite solution of them and helps in bringing men together in masses to combine to carry out a common policy

(3) The press. A body of opinion creates a newspaper rather than a newspaper a body of opinion. **Press.** What the press does is simply to confirm and strengthen trends of opinion already formed. But the press is not to be regarded simply as a vehicle of news. It is an organ of publicity ; it both registers and influences opinion. The press naturally links itself with a party. Its potency depends on its circulation and its financial success is in proportion to its popularity. But the press, in the last resort, is dependent utterly, for all its influence, on the goodwill of its readers.

Public Opinion and Popular Government.

The will of the people, unless expressed by the initiative and referendum, is ordinarily expressed

through their representatives whom the people elect by their votes. The organisation of the party controls, however, for the most part, the selection of candidates. The party leaves to the people only the decision between its nominees and those of other parties. Then comes a stage of appeal and counter-appeal and the party press is brought into requisition for persuasion and denunciation. But so many agencies are applied in the matter of persuasion that the task of arriving at the truth is a baffling task. The people assert themselves not so much through election of representatives, but by the necessity of the governing party to keep in touch with the will of the people. Hence real democracy is not possible unless there exists a party system. To retain its position the government must so act that the popular will supports its continuance in office. This will is a general sentiment in support of a particular government rather than another.

CHAPTER 14.

The Province of Government.

Contents : Theories of state functions; the Individualistic or Laissez-faire theory, the Socialistic theory; the Anarchistic theory; the actual practice of modern states.

The Province of Government.

The exercise of power by the state is a limitation on the freedom of the individual. The adjustment of the relation between the state and its citizens is an important political problem and the leading views concerning the solution of this problem may be stated below :

I. The Individualistic or Laissez-faire theory.

The individualists regard the state as an evil, but it has to be tolerated as a necessary evil. They oppose governmental action except for the **Laissez-faire theory** preservation of life, liberty and property of the people committed to its care. Existence of government is a sign of man's imperfection. States exist because of crimes and if all people were virtuous there would be no necessity for them. Hence the only duty of the government is to restrain and protect the individual from violence or fraud. The state, in brief, is a mere police organisation and except in matters which

are reduced to a minimum, the individuals will be left alone.

The grounds on which individualism is based are:—

(a) Ground of justice.

Grounds on which Individualism is based,—

Ground of justice;

Every individual has a right to be left alone as freedom alone leads to his harmonious development. Development of character and promotion of originality become possible only when over-government and evils of officialism are prevented from happening.

But individualism, logically carried out, would result in the total destruction of all authority. "There is an obvious breach of public morality in a policy of complete abstention."

- (b) Individualism rests also on a scientific basis. It is a corollary of the biological doctrine of evolution. Spencer argued that governmental action was an unwise interference with the survival of the fittest and led only to disastrous consequences.

Scientific ground;

In applying this doctrine, however, one essential difference between man and lower forms of life is missed. The latter are at the mercy of the environment, but man transforms his environment to his advantage.

- (c) Individualism rests on an economic principle. It has been contented, on economic grounds,

Economic ground; that it pays to let man alone; that free competition is more profitable than economic activities under governmental regulation. But unrestricted competition produces gravest social evils and public effort, state assumption of public functions and regulation of other economic functions have materially advanced the varied interests of the individuals.

(d) Finally, it is argued that government is neither infallible nor omnipotent and overburdening the government with many functions means that things are ineffectively performed.

Fallibility of states.

II. The Socialistic theory.

Doctrines entirely opposed to individualism are variously known as Socialism, Collectivism, Communism. Just as the individualists advocate a minimum of government, so the socialists plead for a maximum of government. Far from regarding the state as an evil, the socialists take it to be a positive good. Hence the state would replace private initiative and competition by state management of industries. Revolutionary socialists would confiscate all institutions of private property. The less radical socialists would contend for a realisation of this ideal not by revolutionary but by voluntary methods after the people have become convinced of the evils of the competitive regime.

Theory of Socialism.

The advantages claimed for socialism are :—

**Grounds
for its con-
tention,—
The present
system is
unjust;**

(1) It will remedy injustice and the waste attaching to the present competitive regime.

**evolving
of a higher
type of
character
of the indi-
vidual.**

(2) In socialism the chief motive of human action will be not sordid self-interest, but an altruistic desire to promote social good. Socialism would thus produce a higher type of human character and altruism and not gross materialism would be the basis of the social fabric.

The principal objections to socialism are :—

(1) The difficulties of administration of the socialistic programme are insuperable. Appointment of labourers in various departments, the fixing of values of different goods and other connected matters are problems too difficult to be solved.

**Objections
to socialism**

(2) It will lay the door open to corruption and intrigue.

(3) Competition is the spur to human activity and progress and socialism would result in stagnation.

(4) Socialism presupposes development of a high sense of duty and a zealous regard for common welfare. But such a moral perfection of man, as matters stand, is impossible on this side of paradise.

III. The Anarchistic theory.

It is the logical extreme of individualism. The

anarchists would abolish state authority and substitute individual freedom and voluntary associations. Anarchistic theory rests on an illogical basis. It has ceased to play any part in the convictions of mankind.

Anarchistic theory, its universal rejection.

Anarchism would produce a chaotic condition and a reeling back of societies into the barbarous past.

The actual practice of modern states.

The attitude of modern states is not unqualified individualism. The need for consummation of social solidarity and the uplift of the labouring classes has profoundly affected state legislation. Unrestricted competition drives the poor piteously to the wall. All states have passed various factory acts regulating industrial freedom of contract, conditions and hours of work, employment of women and young children. Some states have adopted compulsory insurance and old-age pensions. Legislations such as these are certainly of a paternal character. The sphere of state control is being steadily widened. All this rests on a conviction (and this is the outcome of experiences of states of a few generations) that the primary duty of a state is not merely to protect the individual from violence and fraud, but to compel him to move in a positive direction and that for his own welfare.

CHAPTER 15.

The Ends of the State.

Contents : Ancient and modern views regarding the ends of the state ; classification of state functions ; essential functions and optional functions.

The aims of the state.

Whether the state is an end in itself or whether it simply serves as a means and enables individuals to attain their ends, is a much-debated question. The ancients regarded the state as the highest aim of human life and as an end in itself. It was the business of the individual to serve the state and not of the state to serve the individual. Accordingly, the individual was subordinated to the state and the state was all-pervasive. There was no matter in which it could not legislate ; even in walks of private life the state interfered. In brief, the member of a state was a mere fraction and not an integer of the state.

**Ancient view—
the state as
an end.**

Such a view is clearly one-sided and contains an element of danger. For one thing, the individual liberty and welfare is seriously endangered. The state becomes omnipotent and omnipotence is the predecessor of tyranny. One important function of the state, namely, the protec-

**Danger of
this view.**

tion of personal freedom and promotion of welfare of the majority was ignored.

In opposition to this view, modern school of writers (specially in England and America) has regarded the state not as an end in itself, but simply as a means for promotion of welfare of the individuals. Macaulay's dictum was that 'societies and laws exist only for the object of increasing the sum of private happiness.'

Modern view

This view is equally one-sided. The majesty of the state is lost sight of and it becomes simply an aggregation of a confused mob tending to degenerate into anarchy. The merit of the modern theory, however, is that it puts individual welfare to the forefront. It lays stress on state policies calculated to maximise the good of the greatest number and legitimately regards a policy as hateful which is the outcome of the caprice of the ruling authority.

Its one-sidedness

Both these views are one-sided and therefore erroneous though they contain a germ of truth. The real position is that the state is both an end and a means.

Correct view.

From the standpoint of the individual the state is a means through which humanity attains its highest development. But the individuals, conceived as members of the body politic, should regard the state as an end in itself. The state is an embodiment of individual ideals.

The state both a means and an end.

Bluntschli's analogy of the state to a picture to the artist is instructive and illustrative of the fact that state is both an end and a means. "A picture is often a means of obtaining a livelihood for the artist or a profit for the picture-dealer. Yet a true work of art is to the artist the aim of the highest effort; he sees in it the expression of his most vivid feelings, the embodiment of his ideal."

The purpose of the state, considered both as a means and as an end, has been differently stated by different writers. According to Bluntschli, the true end of the state is "the development of the national capacities, the perfecting of the national life, and finally its completion, provided, of course, that the process of moral and political development shall not be opposed to the destiny of humanity."

According to Von Holtzendorff the state has a triple end :—(i) the development of the national power, (ii) the maintenance of individual liberty and (iii) finally, the promotion of national progress and civilisation.

Burgess separates the immediate from the ultimate ends of the state and arranges them as *primary, secondary* and the *ultimate* purposes, each end being in turn a means for the accomplishment of the next following end.

**Primary,
secondary
and ultimate
ends
of the state**

The primary end is government and liberty as

the state has to maintain peace and law. The secondary end grows out of the primary, and it is the perfecting of nationality. Mono-national states therefore are the best instruments for this purpose. The ultimate end is the perfecting of humanity, the promotion of civilisation of mankind. It consists in furthering the civilisation and progress of the world.

Functions of Government.

Woodrow Wilson has grouped the functions of government under two heads, the *constituent* and the *ministrant* functions. The constituent functions include :—

- (a) the protection of life, property, liberty of the people ;
- (b) the dealing of a state with foreign powers ;
- (c) the treatment of criminals and the like.

The ministrant functions, though optional, are expected to better minister to the needs of a people than when they are left to private initiative. These include .—

- (a) the regulation of commerce and industry ;
- (b) the regulation of employment of labour ;
- (c) education ;
- (d) sanitation ;
- (e) maintenance of railways etc.

Substantially the same classification is adopted by grouping them according as they are :—

(1) Essential functions. which concern the three-fold relations of state to state, of state to citizen and of citizen to citizen. These include financial as well as military functions.

(2) Optional functions i.e., functions, not essential to the existence of a state, but functions calculated to promote the moral and material welfare of the people. These functions are either of a socialistic or non-socialistic nature and include functions such as these :—

- (a) State management of industry ;
- (b) regulation of trade and industry ;
- (c) regulation of labour ;
- (d) education ;
- (e) care of the poor and the unfit ;
- (f) sanitation and health.

Dr. Garner, following the practice of other writers, has introduced a three-fold classification which is as follows :—

- (a) Functions which are essential, urgent and obligatory (e. g. defence, maintenance of peace and protection of lives and liberty of the people).
- (b) Functions which are natural but not strictly necessary (the maintenance of postal service,

works of public utility, care of health, education etc).

- (c) Functions which are neither natural nor necessary, but still performed by states (state encouragement of industries by protection, bounties and so on, maintenance of banks, universities, state grant for railways and sundry other similar functions).

The functions actually undertaken by a state naturally differ from functions which states ought to undertake and the words of Lord Acton reproduced below are truly significant :

“The great question is to discover, not what governments prescribe, but what they ought to prescribe, for no prescription is valid against the conscience of mankind.”

CHAPTER 16

Citizenship.

Contents : Definition of a citizen ; methods of acquiring citizenship ; citizenship by birth ; by naturalisation ; loss of citizenship ; expatriation and repatriation ; the status of aliens ; essence of good citizenship ; hindrances to good citizenship ; rights and duties of citizens.

A citizen is a member of a political community. The entire population of a state consists partly of citizens and partly of aliens. Aristotle defined a citizen as one who is actively associated with the government and is entitled to enjoy all the honours which the state may confer. But the modern view of citizenship does not recognise the enjoyment of political privilege and hence citizens are subdivided into two classes, those who possess full civil and political rights and those who do not possess them. In some states, for instance, there are citizens who are not electors, just as there may be electors who are not citizens. The electoral right accordingly is not an invariable mark of citizenship. But a citizen, be he an elector or not, must be provided with full civil and political rights. The status of the individual freeman in a civil state is known as citizenship and this status gives the citizen rights and privileges, and duties and obligations as well.

The test of citizenship has perhaps remained unaltered since the time of ancient Athens and Sparta. It is that every citizen has to owe allegiance to the sovereign power of the state.

Test of citizenship

Methods of acquiring citizenship.

Citizenship is acquired in one of three ways :—

1. By birth.
2. By naturalisation and
3. By annexation of new territory.

When citizenship is acquired by birth either of two principles is followed. One is the *jus sanguinis principle* according to which the child's nationality is deducted from that of the parents or one of them. Thus if the father is a citizen of a state where the child is born, it automatically becomes a citizen of the state. If the father is an alien, the child born becomes also an alien. The other principle is the *jus soli or jus loci principle* according to which the *place* of birth determines the status of the child. Hence children born in a state of alien parents are citizens of the state (though the parents were not) and, if they are born abroad, are citizens of the foreign land, but are not citizens of the state of which their parents are citizens.

Citizenship by birth.

Of the two principles, the first is more rational as parentage and not the mere accident of birth in a

place is the guiding factor. As a matter of fact, most of the states follow both principles in practice and any case of double nationality is settled by a person electing to choose either.

Citizenship may also be acquired by *naturalisation* i.e. by a formal grant of the state. This may be effected in different ways : first, by special laws which confer the privilege upon persons specified ; secondly, by virtue of the general laws of the country by which individuals having renounced their old allegiance, take up the rights and obligations of citizenship of a country ; and thirdly, by acquisition of foreign territories with the people thereof, the people becoming citizens of the acquiring state.

These rules differ in details so far as different states are concerned. The normal conditions, however, in every state are :—

- (a) the declaration of an intention to become a citizen ;
- (b) taking of an oath of allegiance at the time of admission into citizenship ;
- (c) residence in the country of adoption for a definite period of time ; and finally,
- (d) production of an evidence of an orderly behaviour during the period of residence.

There is one additional limitation for citizenship

in the U. S. A. Free white persons are eligible to naturalisation. But the Chinese, the Japanese and the Indians suffer from a perpetual disability and they may not secure the benefit of naturalisation.

The inhabitants of territories acquired by conquest or cession take the nationality of the state to whose care they pass. They have, however, the option to elect to retain the old nationality provided they remove themselves to other places.

Citizenship by incorporation of new territory.

The effect of naturalisation practically is to invest the alien with all the rights of a natural-born citizen (the citizen is known as naturalised citizen):

Effect of naturalisation.

In America, the naturalised citizens are not, however, entitled to hold the offices of

President and Vice-President.

British law recognises a difference between *naturalisation* and *denization*, the former being granted by a Parliamentary act, the latter by a grant of the Crown. Denization has now become obsolete.

Loss of Citizenship.

Just as citizenship is acquired in various ways, so it is lost in various ways :

(1) A woman by marrying an alien loses her former citizenship.

(2) Serving a foreign government, desertion from military or naval service, judicial condemnation

for certain offences or long absence from a country and residence abroad entail in a forfeiture of citizenship.

What expatriation and repatriation mean.

Every modern state has admitted the right of voluntary withdrawal of a citizen from a country of his origin to be naturalised in a state of his adoption. This process is known as expatriation. The process by which the original citizenship of one naturalised in a foreign state may be recovered is called repatriation.

Status of Aliens.

Aliens are of two classes :—

(1) resident aliens and

(2) non-resident aliens who are mere temporary sojourners. They are either alien friends or alien enemies. Aliens are subject to the laws of the country in which they reside. They must pay taxes, but are exempted from military service. They receive the same measure of protection of lives and property as the citizens do.

Their civil rights are on a par with those of the citizens, but their political rights are subject to some limitations. Every state has the right, as a mark of sovereign power, to expel those aliens whose presence may be considered dangerous to the safety of the state. This right, however, should not be arbitrarily exercised

as such a drastic step involves a wanton violation of international law.

Essence of good citizenship.

Two principles, antagonistic to each other, yet really essential, constitute the effective foundations of a well-ordered civil society. These two principles are *Obedience* and *Independence*. Obedience implies the submission of the will of an individual to the wills of other individuals. Independence implies the assertion of the individual will against the wills of others. Obedience, carried to excess, gives rise to despotism ; independence similarly carried too far, gives rise to anarchy. The pursuit of a happy mean i. e., a harmonious blending of the above two principles is the essence of popular government. And popular government, depends for its success, on the capacity of its citizens to exercise virtues of freedom. According to Lord Bryce this civic capacity involves three qualities, namely, *intelligence*, *self-control* and *conscience*.

The citizen must be intelligent enough to understand the interests of the community to which he belongs. He should have sufficient self-control so as to be able to subordinate his own will to the general will with a graceful spirit. And finally, he should have a sufficient sense of public spirit, a conscience which will inspire him to exercise his franchise or serve the community generally by voting, working and, in hours of crisis, by fighting for the country's cause. The

excellence of the government greatly depends on the possession of these three civic capacities of the citizens. As Bryce puts it, "such as are the stones, such will be the temple into which they are fitly compacted together." Of the three capacities, conscience is a rare virtue as it necessitates the sacrifice of personal interests for promotion of the general weal.

Hindrances to good citizenship.

The virtues, essential to good citizenship and referred to above, are acquired through *freedom* and acquisition of freedom is a difficult process. Long training and experience alone procure it and nations have often betrayed their ignorance and succumbed to pitfalls. If the average citizen fails to discharge his civic duties, it is because of his deficiencies which may be traced to three causes, namely, *indolence*, *private self-interest* and *party-spirit*.

In the main, the differences between man and man are not due so much to differences in intellect as in habit and determination. A good citizen is always alert and shows a singular devotion to his civic duties and in the bad citizen everybody's business degenerates into nobody's business. A good citizen not only votes but fights for the triumph of his opinion which is honestly formed. He must fight to quell rebellion and must be prepared to fight against the country's enemies and die at the altar of the mother country. Civic apathy is a veritable

cancer to be guarded against and a citizen must vote and stand as a candidate should he possess the necessary ability.

Self-interest is an obstacle to good citizenship and it finds expression in bribery in the taking and giving of a vote. Bribery corrupts the whole constituency. It is enlightened public opinion that alone can stop this vicious practice by branding the bribe-giver as a black sheep. The other manifestations of self-interest which pervert civic duty are : the imposing of taxes, export and import duties, distribution of official favours for securing votes and the filling of public offices by way of party rewards and the corrupting of politics by wealthy men and place hunters. The most potent weapon against these perversions is *Publicity*. It is the fear of exposure that is expected to act as a powerful deterrent.

Politicians have nothing but praise for party spirit. "It supplies the motive power in free governments. It enables men to work together." But this is true only so long as "a body of men is united for promoting by their joint endeavours the national interest upon some point in which they are all agreed". But party-spirit becomes a hindrance to civic duty when it degenerates into faction and allegiance to the party replaces loyalty to the community. "Measures are judged not on their merits, but according to the quarter they proceed from". It is to avoid this that Bryce advises men to keep national politics out of

city elections. But of the two obstacles, indolence and party-spirit, which is worse? According to Bryce, party spirit is less pernicious than indolence or apathy as it stimulates the interest of the citizen. Every citizen, however, should remember that party is not an end, but a means. Leaders are essential to a democratic government as they create ideas and initiate nation-building policies. But the average citizen is not a negligible member. His duty is to rebuke the brilliant but unscrupulous leaders for their acts of omission or commission. It is the general body of average citizens that acts as a counterpoise. One must remember Abraham Lincoln's dictum "You may fool some of the people all the time and all the people some of the time, but not all the people all the time."

Rights and Duties of Citizens.

The object of the government is to create rights and obligations for its members. Rights are benefits for the recipients, just as obligations are duties imposed on others. All rights involve co-relative duties. Green defines right as "a man's capacity of influencing the acts of another by means other than his own strength." According to Holland "a legal right is a capacity residing in one man of controlling with the assent and assistance of the state the actions of others."

A right becomes legal when it is protected by law. It means that the courts will cause those who violate such a right to make amends to the owner of the right.

Thus a right of property means that the trespasser will be made to pay to the owner of the property compensation for any damage done. Rights therefore are the offspring of law.

Liberty in a Civil Society is a right and hence a duty is a check on one's liberty. Every legal right must involve a legal duty. This duty may be owed by the community generally or by a particular person. The duty under which a citizen labours to pay taxes is of the former type. The right to the fulfilment of a legal contract gives rise to a duty of the latter type.

Fundamental rights of citizens,

Every citizen of a civilised state enjoys very valuable rights such as the rights of personal safety and freedom, right of self-defence, right of property, right to self-respect, right of freedom of speech, family rights, right of reputation, right to general advantages of social life, right to immunity from fraud, right to bear arms and fight in the country's cause, right to freedom of worship and a host of other rights all of which are not possible of enumeration. In England the securing of these rights has been possible because of the existence of the Rule of Law. This is a valuable safeguard and held dear by every British subject. It means that every man is subject to the ordinary law of the land and to the ordinary law alone. And no man can be punished except for a breach of the ordinary law proved before the ordinary courts.

These rights consist in "a person's legal and uninterrupted enjoyment of his life, his limbs, his body and his health", also in "the power of locomotion, of changing situation, or removing one's person to whatever place one's own inclination may direct, without imprisonment or restraint, except by the due course of law".

Rights of personal safety and freedom.

In protecting his personal security, a citizen may use force in self-defence and if the force used is necessary and reasonable, even the killing of the aggressor will be excused,

Right of self-defence

Every citizen has the right to worship God in whatever may he likes, provided he does not disturb the peace.

Religious liberty.

Every citizen enjoys the right to say or write what he likes provided that by so doing he does not blaspheme or defame others and that it is not obscene or seditious. He has also a right to attend a lawful public meeting.

Freedom of speech.

A citizen has a right to the society of his wife, custody of his children and if he has been deprived of his children, for instance, he has a right to recover their custody by means of the writ of Habeas Corpus.

Family rights.

Duties of citizens.

Since a right would be of no avail if the courts were not ready to protect it, in every right is involved

a corresponding duty. The duties imposed by the state conduce to an orderly government.

Duties imposed for the benefit of the public and provision of punishment of those who are law-breakers are dealt in in criminal law. And **Duties of the criminal and civil law.** duties conferred on individuals (against corresponding rights of individuals) and provision for compensation are dealt in in civil law.

There are certain moral duties which are binding on the citizen. Thus he should not simply obey the law, but should do all that lies in his power **Moral as opposed to legal duties.** to secure the observance of law by others. Similarly, he has a duty of voting which should be exercised with due regard to the public benefit and so forth.

CHAPTER 17.

The Constitution of the State.

Contents : Definition of constitution ; classification of constitution ; written and unwritten constitution ; rigid and flexible constitution, their merits and demerits.

Constitution, written and unwritten ; rigid and flexible.

The form of any particular state is called its constitution. Woolsey defines constitution as follows :

“The collection of principles according to which the powers of the government, the rights of the governed, and the relations between the two are adjusted is called a constitution.”

Definition of constitution. Professor Dicey defines it thus :—

“All rules which directly or indirectly affect the distribution or the exercise of the sovereign power in the state.” In all states the constitution is partly written and partly unwritten. In a written constitution all the fundamental rules are compressed in a constitutional document and exist in black and white. The constitution, in so far as it is unwritten, is not strictly law, but has an equal binding force, resting as it does on long-standing custom and is enforced by public opinion.

Written and unwritten constitution.

The advantages claimed for written constitution are :—

- Merits of a written constitution.**
- (a) It safeguards individual liberty. The government is prevented from acting arbitrarily.
 - (b) A written constitution also possesses the advantages of security, definiteness and stability.

The disadvantages are :

- Its demerits.**
- (a) A written constitution does not in itself guarantee individual freedom. It is no adequate check on the government acting arbitrarily. It is public opinion alone that safeguards individual liberty.
 - (b) It is impossible to compress in a single document the fundamental principles of a nation's political life which changes as fast as civilization changes.

Is the distinction between states with written and those with unwritten constitution a satisfactory basis ?

The answer is in the negative. The constitution of no state is either wholly written or wholly unwritten. The constitution of England is largely unwritten, but it contains certain written documents like Magna Carta, the Bill of Rights, Act of Union etc. Again, the American constitution is fundamentally written, but certain unwritten elements have crept into it (for instance, the opposition to the occupation of the

Presidential chair by the same person for the third time).

Finally, when jurists differ in their interpretation of a written constitutional law, the judge is guided by custom and custom is unwritten.

A distinction is made between two kinds of laws, constitutional and statute (or ordinary), the former resting on a higher plane and a higher sanctity attaching to them than the latter. The constitutional law deals with the fundamental organisation of the state. The Statute law deals with details of government and the ordinary relations of the citizens. The former type of constitution is classified as rigid constitution as the constitutional law emanates from a different source and as a special, sometimes a very complicated procedure, is to be followed in the matter of repealing or amending it.

On the other hand, if both kinds of law, constitutional and ordinary, stand on the same footing and the same body is competent to amend or repeal both kinds of law by the adoption of a self-same procedure, the constitution is said to be flexible.

The advantages of a rigid constitution are:—

- (1) Laws being difficult of alteration people acquire an instinctive reverence for them.
- (2) Hasty and drastic changes cannot be introduced.

Rigid and flexible constitution

Merits of a rigid constitution.

(3) It provides for a stable and definite constitution.
The disadvantages of a rigid constitution are :—

(1) Clearly needed reforms can not readily be
Its adopted and the constitution may not fit
demerits. in with the changing conditions of society.

(2) By checking innovation it may provoke revolution. A flexible constitution is capable of bending, but a rigid constitution breaks without bending.

Requisites of a good constitution.

A good constitution possesses certain salient features :

- (a) It must be definite.
 - (b) It must be comprehensive and cover the whole field of government.
 - (c) It must be brief. A detailed constitution does not serve its purpose.
 - (d) It must be sufficiently flexible to permit of clearly needed changes being introduced.
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CHAPTER 18.

Local Government.

Contents : Relation of local to central government ; administrative decentralisation and legislative centralisation ; administrative centralisation and legislative decentralisation ; organisation of Local Government in England.

The Central Government is not the sole organ of administration and even in the smallest states there exists in addition to the central body, a large number of local bodies whose functions extend over very restricted territories. The state is not simply the organisation of a people conceived as a whole. Each state after all is a territorial organisation. Just as there are certain great interests which are the common concern of all the members ; so there are others which arise from the special conditions of a locality, due to its peculiar geographical character or its economic activities, or its peculiar distribution of population or a singular historical process which gives it a special status. In brief, human needs can be best ministered within local areas. Hence, besides the central government there exists an array of complicated local authorities and these constitute together the machinery of the state.

Generally speaking three types of functions may be distinguished :

- (i) functions which are performed and controlled by the central government (military and naval functions, treaty-making, determination of rights and duties of citizens etc.)
- (ii) functions of a universal nature like those stated above, but for the furtherance of which the co-operation of local authorities is enlisted, the local authorities being, however, controlled by the central authority (administration of justice, police, care of the poor etc.)
- (iii) functions which concern a particular locality (water supply in a particular area). It is but reasonable that over such services the locality should have a direct and full control and the local authority is best fitted to appreciate and promote local interest. It is not possible, however, to sharply demarcate the local from the central interests and in many cases the former merge into the latter.

Relative position of central and local Government.

The main problem is to combine local independence and central control. The principle of local self-government is the basis of modern democracy and requires the investing of local authorities with a fair degree of independence. At the same time, in the

interest of efficient government and unity, the central government must also exercise a certain measure of control over local units.

In its constitutional aspect, two main types are found. Either the local governments derive their powers from the central government and perform them at the pleasure of the latter (for instance, in France). Or, there may be organs of local government (as in the separate states of the U. S. A.) which exist by virtue of state constitution and can not be put out of existence by the legislature.

The relations existing between central and local government are :

(1) the central government may control legislation only, the administration being left in the hands of local officials. This, in brief, is legislative centralisation and administrative decentralisation, and prevails in England and America.

(2) Still another method is for the central government to delegate the bulk of the legislative powers to local bodies, but retaining in its own hands a direct administrative supervision. This system is simply administrative centralisation, but legislative decentralisation and prevails in France.

Administrative decentralisation and legislative centralisation.

In case of conflict between the will of the state and that of a local community, the interest of the state has

to be sacrificed. But the system truly responds to popular will. The local people receive the best political education as the local units are the best potential schools of citizenship and take a large interest in public affairs.

Administrative centralisation and legislative decentralisation.

The government tends to be more or less bureaucratic. The government is formed by specially trained officials who show a singular devotion to public service, enjoy a permanent tenure and are capable of acting in a dispassionate way. The service builds traditions and maintains efficiency and discipline. But the danger lies in a blind subservience to form or red-tapism and public opinion is honoured more in the breach than in its observance. The citizens receive little political education and their sentiments of loyalty are rarely aroused.

The organisation of Local Government in England.

The English local institutions are truly democratic and contribute substantially to the political education of the people. The largest local government division is the county and the Local Government Act of 1888 created 62 "administrative" counties which are made up of rural and urban districts and boroughs. The unit for Local Government is the parish which has a local authority of its own only in rural areas. Above

it is the rural district which contains one or more parishes. Their counterparts in urban areas are the urban district and the municipal borough. Another area is the "Union" which consists of one or more parishes for organisation of poor relief. These unions coincide with the rural districts in rural areas, and the rural district councillors act also as Guardians. In urban areas, however, separate Boards of Guardians are elected. The organisation of the Metropolis is different. It forms a distinct administrative county and the chief administrative body is the London County Council. The government of the city of London is in the hands of a Lord Mayor, Aldermen and Councillors.

CHAPTER 19.

League of Nations.

Contents : History of the movement; the covenant of the League; the organisation of the League; the world Parliament called the Assembly; the Council; the Secretariat; the World Court; the International Labour Organisation—its Assembly, Secretariat and Court; Mandates; achievements and failings of the League.

League of Nations.

The principle underlying the League of Nations is not at all new. It has been a consummation of the

Principles on which the League of Nations is based aspirations of humanity, a fulfilment of the highest idea of the state. "For hundreds of years men had dreamed and worked for an age when nations would no longer go to

war to settle their differences, but use peaceful methods, to settle them." For after all "Nations are citizens of Humanity, as individuals are the citizens of the nations".

History of the movement. (Mazzini). The idea of the world unity at first extended to Europe only, thanks to the influence exerted by the Christian Church.

But this unity was disrupted by the division of the Church and the Reformation. The emergence of national states and the establishment of European sovereignty over non-European countries gave rise to frequent wars and the need of a body of laws which

should control the intercourse of states was being keenly felt.

The beginning of the 19th century witnessed two epoch-making events—the invention of the steamship, railways, telegraph and the wireless which brought the nations into closer touch, and the vast development of international trade which brought about an economic dependence of the peoples of the world on goods produced in the different places of it.

These changes taught statesmen that no nation could afford to live in an economic isolation and two methods were tried for nations to work together. Several nations sometimes would make a secret treaty to protect each other against attacks. The outcome was that other nations excluded from this pact would form an alliance of their own. Both groups of states would watch each other's movements suspiciously and would consolidate their military and naval strengths. Thus the Balance of Power was brought into being and groups of nations competed with one another in having the biggest armies and navies. And it was one important cause of the Great or World war.

The other, but more successful method, was called *arbitration*. This was to hold conferences and agree to settle international quarrels by leaving the decisions in the hands of persons not concerned with the quarrels. An international conference of this nature was convened for the first time in 1851 and certain rules were adopted in 1893 particularly for fighting certain tropical diseases

like cholera and plague. A universal Postal Union was set up in 1874 with the result that postal services all over the world have become cheap and efficient. Certain international disputes were also settled by arbitration. Each time a dispute or quarrel arose a committee had to be set up. To overcome this unsatisfactory condition a Permanent Court of Arbitration was formed at the Hague in 1899.

But a real beginning has been made in international thinking when, at the close of the great war, twenty-seven nations worked in concert to form what is called the League of Nations.

The main idea of the League is briefly this: that instead of groups of nations holding conferences from time to time and making friends, *all* nations should meet *regularly* and become friends. This is the best way to avoid wars and the main object of the League is the avoidance of war. At present there are fifty-six nations who have joined the League.

The Covenant of the League.

The objects of the League are declared in the Covenant attached to it and they are: "To promote international co-operation and to achieve international peace and security, by the acceptance of obligations not to resort to war; by the prescription of open, just and honourable relations between nations; by the firm establishment of the understandings of International Law as the actual rule of conduct among Governments, and

by the maintenance of justice and a scrupulous regard for all Treaty Obligations in the dealings of Organised Peoples with one another, the Powers signatory to this Covenant adopt this constitution of the League of Nations."

The founding of the League of Nations has been called the "Greatest Event since Christ."

The original members of the League were the signatories of the Treaty of Peace on behalf of the Allies. The High Contracting Parties agreed to the covenant for promoting international co-operation and achieving international peace and security.

In the Charter of the Covenant there are twenty-six Articles which set out the methods by which the objects are to be attained. The seat of the League is at Geneva in Switzerland.

The Organisation of the League.

The League has a **World Parliament, called the Assembly**, which has to meet for several weeks **The League** each year at Geneva. Every member of **Assembly.** the League sends representatives to it.

The Assembly has to elect nine states as members of a committee called the Council which has to meet more often than the Assembly. Besides these nine states, there are five other states who are permanent members and they are the five Great Powers, Great

Britain, France, Germany, Italy and Japan. Japan left the league in March 1933.

The duties of the Assembly are the voting of the Budget, the election of the non-permanent members of the Council and the amendment of the Covenant. It serves admirably the purpose of a general conference where all nations exchange ideas on international questions, thereby giving an impetus to the work of international co-operation.

The council is assisted by a number of committees such as health, transport, finance. Its duties are mainly
The Council. two—mediatory and administrative. It supervises the appointments of the Secretariat, prepares the agenda for the Assembly and receives and comments on the reports of the Mandates Commission.

The decisions of the *Assembly* and the *Council* are carried out with the help of an international civil service, called the *Secretariat*. Nearly
The Secretariat six hundred men and women from forty nations carry on the work of the League all the year round. There is the Secretary General who controls all the sections into which the Secretariat is divided. The important sections are on "Disarmament", "Health", "Law", "Mandates" and so forth.

The section on "Law" is rather important. The chief work which the League has to do is to prevent war and settle quarrels between nations. And these

are settled by judges who know international law.

The World Court.

So there is the *Permanent Court of International justice*, called the 'World court',

consisting of fifteen judges who are chosen by the Council and the Assembly voting together. They are elected for nine years. They do not represent the governments of their countries and are at liberty to vote against their own states, as they must be loyal to the whole world. Many quarrels which might have led to wars have been peacefully settled by the World Court. The members of the League not only settle their quarrels in a peaceful way, but try to *remove* the *causes* of war, the chief of which is the competition in armaments. The League accordingly called the first World Disarmament Conference in 1932 at which virtually all states of the world, whether members or not, were represented. If the conference is to play the role of the harbinger of world peace, there must be a change of heart, and nations will have to cease boasting of big army, navy and air force, and learn to take an honest pride in trying to bring about a reduction in armaments.

The International Labour Organisation (called the I. L. O. for short) is another important part of the Secretariat. Its main work is to care for the workers in different countries, to see that the labourers do not work for too long hours, that they are not exploited and that they are adequately paid for their work.

The International Labour Organisation.

The I. L. O. has its "*assembly*" called the Conference which meets once a year at Geneva and **its** every member-state sends four representatives (two representing the government, **Assembly,** one representing the workmen and one representing the employers).

The *Secretariat* of the I. L. O. is called the International Labour Office which has offices in Geneva, Paris, London, Rome, Berlin, Tokyo and **Secretariat** Washington. The duties of these offices are to find out facts on labour conditions in the different countries and send in reports to Geneva.

The *Court* of the I. L. O. is called the Commission **and** of Enquiry. It finds out the truth on reported **Court** cases of injustice to workers, but it has no judges and as such cannot decide on 'points of law.

By all these machineries the I. L. O. has succeeded in getting rid of evil after evil which prevails in factories, plantations, mines etc. It has helped men, women and children, and given them health and safety.

The *Mandates* section of the League is another important wheel of the machinery. The Peace Conference decided to place Germany's colonies and certain areas of the Turkish Empire under the administration of Allied Governments, **Mandates**

such administration being supervised and controlled by the League of Nations and lands thus handed over are called Mandated (i. e. handed over) Territories.

The pivot on which the whole system turns is the Permanent Mandates Commission which was to consist of nine members, the majority of whom were to be nationals of non-mandatory states. The people of these lands were to be educated to that stage of civilisation which would enable them to rule themselves. The mandates are divided into three classes A, B and C. The day of liberation of the A lands is not far off, but lands of the B and C types will have to wait for generations before the enfranchisement takes place.

Achievements and failings of the League.

We are now in a position to take stock of the works hitherto done by the League in all its branches. The total work done of course is impressive. Its chief work has been to prevent war and settle quarrels between nations. Occasionally, the quarrels became so serious that two nations actually started fighting before the League could intervene and prevent it (e. g. Bulgaria and Greece in 1925). The League not only promises to settle the international quarrels in a peaceful way, but it also tries to remove the potent *causes* of war by tackling the problem of armaments. It has been found desirable to resort to an indirect limitation

by means of budgetary control, for it is vitally necessary, that there shall be a real check on the uncontrolled use of armed weapons. The League provides for the "minorities." It also provided for about two million people who fled from Russia into the neighbouring countries as the result of the revolution in Russia. It has helped many with loan of money to the Greek Government. With this money the Greek refugees, about a million and half in number, have been offered shelter and chances of employment. Similar help has been given to the Armenian refugees. Slavery, though abolished in the majority of countries, still persists in certain places such as Abyssinia and Arabia and slaves of these countries are looking forward to the League for special assistance and protection for their emancipation. Every nation which signed the international treaty, called the Slavery Convention, in 1926 has pledged to set free any slaves in its colonies or lands over which it has control. Each year every nation has to submit a report to the League informing it what it has done towards setting slaves free. It has succeeded, through international collaboration, to stop many epidemics. Many evils, such as trade in dangerous drugs like opium, have been minimised. Also financial difficulties of nations have been tided over by securing, through the League, help from other nations.

Notable as these achievements have been, the greatest of the League's failures has been in the dispute between China and Japan over Manchuria. To all

intentions and purposes, Japan flouted the League for a long period, and denied its right to intervene. A disappointment like the above shows not only the weakness of the League, but also the limitations of humanity. The only solution lies in the providing for more opportunities and remedies never come too late in the world's life.

BOOK I

PART II

ELEMENTS OF INDIAN ADMINISTRATION

ELEMENTS OF INDIAN ADMINISTRATION

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ELEMENTS OF INDIAN ADMINISTRATION

CHAPTER 1.

A brief historical background.

Contents : A brief historical background. Conflict with the French. The Regulating Act of 1776. Pitt's India Act of 1784. Acts of 1813 and 1833. The Mutiny of 1857. Its aftereffects. The Act of 1858. Queen's Proclamation. Indian Council Act of 1861. Indian Councils Act of 1892. The Indian Councils Act of 1909. Circumstances leading to the passing of the Government of India Act of 1919. The Act of 1919. Objects kept in view in the working of the present Constitution.

The successful administration of the Indian Empire by the English has been one of the most notable and admirable achievements of the white race during the last two centuries—Theodore Roosevelt.

England's interest in India dates from the year 1600 when queen Elizabeth granted a charter to the East India Company giving it an exclusive right of trading with the Far Orient. The present Empire of India owes its existence to the activities of this Company, the territorial rights it obtained from the Great Mogul and other Indian rulers. The East Indian trade turned out to be highly lucrative and stores of large values had to be protected. In those days of decentralised administration, the Company had to naturally make

its own arrangements for protection by maintaining a small garrison of Englishmen, at each of its posts, the soldiers being drilled and officered in military discipline.

Conflict with the French.

The rival French East India Company was organised in 1664 and it also formed similar garrisons for protecting their trade interests. The European troops proving expensive, both the Companies substituted Indian troops who began to be trained and placed under European officers. And the services of these troops were utilised as the Indian rulers constantly at war with one another, frequently required the assistance and made overtures to the English and French companies for help. As occasions for the Companies' intervention were many, the original commercial rivalry developed into warfare. For instance, if the British Company would espouse the cause of one ruling prince, the French would set up a rival to the throne and help him and this was happening in India although England and France were at peace. Had there been a consciousness of nationalism sufficiently developed or had India lived under a strong central government, this state of things could not at all happen. "So the whole peninsula became a cockpit in which two European commercial companies fought their duel for supremacy. When the combat thickened these companies drew their respective governments

in, and eventually the Anglo-French conflict of 1753-1761 became a war of almost world-wide dimensions. French and British armies battled in India, in Europe and in America as well" The battles of Plassey (1757) and Baxar (1764) made the English Company the masters of a large tract of India. In 1765 it became territorial sovereign over many parts of India, the French being practically forced to withdraw from India in 1763 by the Treaty of Paris. The Great Mogul at Delhi became the Company's vassal and the Company acquired the right of financial and military administration of Bengal, Bihar and Orissa. "From dealing in spices and dyes, the Company thus rose to be a dealer in revenues, territories, thrones and destinies". Up to this time the British Government had no direct share in the administration of the company's affairs. But the Company's powers and territories were now so vast that some governmental intervention became necessary.

In 1773 the company's administration was placed under the control of a Governor-General nominated by the Crown. The Government of Bengal was organised and a Supreme Court of Justice established at Calcutta. Warren Hastings was the first Governor-General.

The Regulating Act of 1776.

The company's officials exploited the civil administration for increasing their private incomes and after retirement, lived in England as Nabobs and bought

seats in the House of Commons from the owners of pocket boroughs. Tales of such corruption outraged the public conscience in England and the Regulating Act of 1776 was passed by which the Governor-General, appointed by the Crown, was to be stationed at Calcutta and assisted by an appointive Council. He was placed in charge of the company's political administration only. The Court of Directors of the company had the fullest control of financial and commercial matters.

Pitt's India Act of 1784.

The previous act was found to be defective as the powers and co-relation of the two authorities were not clearly defined. Constant friction arose between the Governor-General and the Board of Directors and "the dyarchy of royal and company government" was unworkable. By the Act of 1784 the Board of Control was created and it had "full powers of superintendence, direction and control over the affairs of the company". The Court of Directors was now subordinated, in all respects, to the Board of Control. And this system, with some modifications, remained in force until 1858. The Board of Control consisted of several privy councillors with a president who eventually became Secretary of State for India. Further territory was annexed by Lord Wellesley (1798 to 1805). As a result of a parliamentary enquiry, an Act was passed in 1813 by which the company's exclusive right of trading with China was reserved, but the export and im-

Act of 1813

port trade of India was thrown open to British subjects.

This act took away the monopoly of the China trade from the company which was now finally deprived of its commercial functions, but continued to exercise the administrative and political powers. An important declaration was now made that the company's territorial possessions were held "in trust for His Majesty, his heirs and successors, for the service of the Government of India".

The right of patronage of the Company's Court of Directors was taken away in 1853, the Indian Civil Service being thrown open to general competition.

The Mutiny of 1857.

The Mutiny was a surprise to the Company and it was caught unawares. The mutiny burst like a flash and at Delhi the restoration of the Mogul empire was proclaimed. But after much hard fighting the mutiny was quelled.

Aftereffects of the Mutiny.

The system of government in India was assailed by all parties in England and public opinion rallied in favour of termination of political authority vested in a profit-making body. "Parliament bowed to this clamour and decreed that the East India Company should surrender its vast and varied political powers".

The Act of 1858.

The Act of 1858, officially called the "Act for the Better Government of India" transferred the work and

property of the Company to the Crown. India was to be ruled by a Viceroy appointed on the advice of the British Cabinet. The Secretary of State for India, with rank as a member of the cabinet, was to continue and was to be assisted by a council of fifteen members. The Indian budget was to be voted by Parliament. Since 1858 the Sovereign has become Emperor. The Company was formally dissolved in 1874.

The plan of government under the Act of 1858.

The Secretary of State served as a hyphen connecting the Crown with the Parliament on the one hand, and England with India on the other. The Crown, on the advice of the Prime Minister, appointed the Viceroy for a five-year term and became the head of the Indian administration. The Viceroy was assisted by two councils—the executive and the legislative. The former body consisted entirely of Englishmen, but the latter contained an Indian element. The legislature was competent to make laws for India, subject to the oversight of the British government.

Queen's Proclamation.

In November 1854 Queen Victoria issued a proclamation to the Princes and peoples of India. It is called the Magna Carta of India, "a pledge of good government." The transference of India to the Crown meant a change in spirit, if not in form. The double control was done away with, India became a part of the Em-

pire and "it sealed the unity of Indian government and opened a new era".

State of things from 1858 to the outbreak of the war in 1914.

During this period the administrative duties steadily increased, the need for decentralisation was recognised, the Governor-General's Council increased in size and one department of administration was placed in charge of a council member. The Council acted like the Cabinet for the discussion of questions of policy.

Another important change was an expansion of the Governor-General's Legislative Council which began to function in 1861 in a small way. The Governor-General's Council was to consist of not less than six, not more than twelve additional members, half of whom, either European or Indian, should be unconnected with Government, together with the Ordinary Members i.e., Members of the Executive Council. The Provincial councils were also constituted and were given power to enact laws on local matters only.

Under the Act of 1892, known as Lord Cross' Act, the council was authorised to discuss the annual financial statement. The non-official element in the Council was increased and the council was placed in a roundabout way on an elective basis. And in addition to legislative business, it was given the opportunity of discussing the budget (i. e. the annual statement of

Indian Council Act of 1861.

Indian Councils Act of 1892.

revenue and expenditure) and also the right of asking questions of members of the executive Council. Corresponding changes were made in the size, functions and composition of the provincial legislative councils.

The elective element was considerably increased. The measures generously conceived are associated with the name of Lord Morley of Blackburn,

**The Indian
Councils
Act of
1909.**

then Secretary of State for India. The membership was more than doubled and

the right of discussion, so long confined to financial matters, was extended to all subjects of general interest. Although, however, a substantial elective element was introduced both in the Central and Provincial legislative councils, no attempt was made to establish the system of direct popular representation. And except for representation of a number of special interests that were established, indirect election was the practice.

Points of difference between the Acts of 1892 and 1909.

The essential points of difference were as follows :

(1) The Act of 1892 authorised the discussion of the annual budget, but nothing beyond that. Lord Morley's Act allowed resolutions to be moved in the council and allowed a vote of the council to be taken on the resolutions.

(2) By the Act of 1892 questions could be asked after due notice had been given. Under Lord Morley's Act and the subsequent rules framed there-

under, the questioner was given a further privilege of asking supplementary question to the original question.

(3) The Act of 1909 gave another important privilege to non-official members of moving resolutions on matters of general public interest and the right of putting such resolutions to the vote of the council.

The desire for self-government became articulate in the beginning of this century and found expression through the Indian National Congress. During the period of the Great War not only India remained loyal; she helped England with a large expeditionary force and a contribution of £100 millions. These generous acts created a favourable impression in England that as large a measure of self-government as could be safely granted ought to be India's rightful reward.

The Home rule movement in India.

Circumstances leading to the passing of the Government of India Act of 1919.

The Act of 1919 is an epoch-making measure and is based on a project agreed upon by Mr. Montagu, then Secretary of State and Lord Chelmsford, the Viceroy. This was embodied in a report, called the Montagu-Chelmsford report submitted in 1918. On the basis of the report a draft scheme was prepared which Parliament passed in 1919 as the Government of India Act. And the purpose of the Act is stated as "the increasing association of Indians in every branch of the administration and the gradual

development of self-governing institutions with a view to the progressive realisation of responsible government in India as an integral part of the British Empire."

The Government of India Act of 1919.

The present constitution of India is based on this Act and the act is avowedly experimental. It contains the statutory framework of the Indian new constitution. But the great mass of detail to be worked up within this framework is to be determined by rules supplementary to the Act. The rules and the other changes may be made by the Government of India with the sanction of the Secretary of State in Council and rest for their validity on the approval of Parliament.

Objects kept in view in the working of the present constitution.

The following principles have been kept in view and they are intended to be put into practice in course of time :—

- (i) Popular control is to be established in local bodies.
- (ii) Consistent with due discharge of responsibilities by the Government of India, the provincial governments were to be given the largest measure of independence of the central government.
- (iii) In all essential matters, during the period of transition, the central governmental authority was to be indisputable.

- (iv) There was to be a relaxation of control of the British Parliament and of the Secretary of State on the Indian administration.

**Outlines of the new system of Government—
the Organisation of the Government of
India.**

A. The Secretary of State for India.

We have already seen that the Sepoy Mutiny put an end to the Company administration and its Court of Directors. The new office of the Secretary of State for India was created. He was to take the place of the President of the Board of Control and was to be assisted by a Council of advisers, called the Council of the Secretary of State for India.

The Secretary of State is a member of the British Cabinet and is responsible to the Parliament. He advises the Crown in matters relating to the Indian administration. He has to submit to Parliament annual reports which contain a statement of the moral and material progress of India. He has also to submit an account of the Indian Revenue and Expenditure. His salary, which previous to the year 1920, was a charge on the revenues of India, is since April 1920 being paid out of moneys to be provided by Parliament. The House of Commons has an opportunity to discuss all matters of fundamental importance relating to Indian administration in Committee of Supply.

CHAPTER 2.

The Secretary of state for India— his powers and duties.

Contents : The Council of India. Its constitutional position. The India Office. The High Commissioner for India. His constitutional position and duties.

The Secretary of State is the communicating link between the Government of India and the Government of Great Britain and is responsible to Parliament for the Indian administration. As distinguished from the other secretaries of state, he has to act with the Council of India. By section 19A power is given to him in council by rule to “regulate and restrict the exercise of the powers of *superintendence, direction and control*” relating to the Government of India or the revenues thereof. These powers are exercised for the following purposes :—

- (a) to safeguard the administration of central subjects ;
- (b) to decide questions arising between provinces ;
- (c) to determine the position of the Government of India in respect of questions arising between India and other parts of the British Empire ;

(d) to safeguard Imperial interests.

He makes appointments and promotions and is assisted by a permanent and a Parliamentary under-secretary and a large staff.

No expenditure from the Indian revenues is valid unless sanctioned by him and a majority of his council. He thus enjoys vast powers and law specifies certain powers which he must exercise in council (does not matter whether the majority support him or not). There are also other matters which require the approval of the majority of the members of the council. Thus in matters like the granting or appropriation of Indian revenues, the exercise of borrowing powers, the making of rules for appointments, a majority of votes of the council is necessary. This obligation, however, does not apply to urgent or secret orders such as the making of war or peace, the policy to be followed with regard to an Indian prince etc., where the Secretary of State may take action by himself.

The Council of India.

The Council, by the Act of 1919, is somewhat reduced in size. It is composed of not less than eight, and not more than twelve, members, the Secretary of State being free to appoint within those limits. The period of office is reduced from 7 to 5 years, though he may reappoint a member for another term, for special reasons to be communicated to Parliament. At least one-half of the members shall have served or resided

in India for a period of not less than 10 years and who have not left India more than five years before their appointment. Since 1917 three Indian members have been sitting in the Council.

In practically every matter of importance the Secretary of State must act in Council. The salary of a member is £1200 a year with an additional subsistence allowance of £600 to Indians holding office in the Council. Usually the senior member is the Vice-President and the Secretary of State is the President of the Council. The Council is divided into several committees such as of Finance, of Political affairs, of Revenue, of Public works etc.

Its constitutional position is that of an advisory body and not an executive body and it has no right of initiation, a right which the departmental Secretaries, as executive officers, possess. No individual responsibility attaches to any member and opinions are expressed collectively. The secret despatches received or sent by the Secretary of State are not placed before the Council.

The Act of 1919 provided for a relaxation of the control of the Secretary of State in council so as to give effect to the purpose of this Act. And what is now considered desirable is that the Secretary of State should interfere, as little as possible, in the internal administration of India, if the Government and the Legislature of India are in agreement. Also some of

the functions of the Secretary of State in Council, since 1920, has been entrusted to a separate official, the High Commissioner.

India Office.

Associated with the Secretary of State and the India Council is a Secretariat known as the India Office situated at Whitehall. Appointments to the establishment are made by the Secretary of State in Council and are subject to the Home Civil Service rules.

The High Commissioner for India.

Under the reformed constitution the powers of the Secretary of State are no longer centralised, but are divided between him and the High Commissioner. The High Commissioner has been given the control of the purchase of the Government stores in England, the Indian Students Branch and the supervision of the Indian Trade Commissioner. He also performs agency work like the payment of civil leave allowances and pensions. He acts as the Agent of the Governor-General in Council in the United Kingdom, also acts in behalf of local governments in India. But unlike the High Commissioners for the Dominions who perform political functions, the High Commissioner for India performs only functions of agency of the Government of India.

CHAPTER 3

The Government of India

Contents : The Government of India—Legislature. Introductory. The Indian (Central) Legislature. The Council of State. Its composition, tenure and relative position. Purpose for which this body was created. The Legislative Assembly. Its composition. Method of election of Members. Powers of the Assembly. The Parliament of India. Franchise.

Introductory :

The Act of 1919 contained elaborate provisions for decentralisation and the problem of decentralisation occupied the attention of the Indian Government from the time of appointment of the Decentralisation Commission of 1907. Lord Hardinge in the famous Coronation Durbar dispatch suggested "gradually to give the provinces a larger measure of self-government, until at last India would consist of a number of administrations autonomous in all provincial affairs, with the Government of India above them all". This was an anticipating of the reforms actually introduced in 1921.

Part I of the First Schedule to the Devolution Rules which give effect to the provisions of the Act of 1919, contains a list of subjects which are Central (as they relate to the Government of India) and Part II contains a list of subjects which are Provincial and the Second Schedule enumerates these subjects.

The most important Central subjects are :

Defence, external and foreign relations with Indian States, posts and telegraphs, currency, public debt, customs, civil and criminal law, all-India services and all matters not specifically declared to be provincial subjects.

The Provincial subjects have been further divided into "reserved" and "transferred" subjects. The Governor-General in Council retains large powers of control over Provincial governments in their administration of 'reserved' subjects. But in regard to the 'transferred' subjects, the powers of superintendence, direction and control vested in the Governor-General in Council are to be exercised for the following purposes only :—

- (a) to safeguard central subjects ;
- (b) to decide questions arising between two or more provinces ;
- (c) to safeguard Imperial interests and
- (d) to the raising of loans by local governments.

The list of "transferred" subjects includes : local self-government, public health, public works, agriculture, fisheries, development of industries, registration, co-operative societies, education (other than European and Anglo-Indian) and excise duties on alcoholic liquor and intoxicating drugs.

The Presidencies and Provinces are governed in

relation to the 'reserved' subjects by the Governor-in-Council and in relation to the 'transferred' subjects by the Governor acting with Ministers. This is dyarchy or dualised form of Provincial Governments by which each set of authority is responsible for its own work of administration, the Governor acting as a connecting link and exercising a co-ordinating influence.

Government of India—The Indian Legislature.

Since 1861 the size and powers of the central legislature have been expanding. The Act of 1909 was responsible for constituting a legislature of 68 members, of whom 36 were official and 32 represented different commercial and Indian interests.

Great changes were introduced by the Act of 1919 in the organisation and functions of the Legislature. For one thing, the legislature has become bi-cameral and consists of one upper house, the Council of State, and a lower house, the Legislative Assembly. The Indian Legislature consists of the Governor-General and these two chambers.

The Council of State.

It consists of not more than 60 members, of whom not more than 20 (one-third) are officials (they are ex-officio members and sit because they hold administrative posts). The remaining members are elected. Its normal life is five years; the Governor-General, however, has the power to dissolve either house or extend its existence in special circumstances.

The franchise is based not only on a high property qualification, but on status, such as past or present membership of a legislative body, past or present tenure of office of a local body, university distinction, the tenure of office in a co-operative banking society or the holding of a title conferred for literary attainments. No bill, except a money bill, is deemed to have been passed by the Indian Legislature, unless it has been agreed to by both Chambers. In matters affecting finance, this body like House of Lords, has no voice, the Assembly being vested with wide powers of financial control, except in matters which the Act of 1919 has declared to be non-votable. This chamber, as well as the lower house, has the power of interpellation and moving resolutions on all matters except those relating to foreign relations, Indian states or any matter which is *sub-judice*.

Purpose for which this chamber was created.

This house was created as a counterpoise to a popularly elected lower house which, according to its authors, might take up an irresponsible attitude. A second chamber, by reason of its constitution, would be cautious and amenable to official opinion. The following extract from Joint Report, para 278, is rather illuminating: "Inasmuch as the Council of State will bethe revising authority upon all Indian legislation, we desire to attract to it the services of the best men available in the country. We desire that the Council

of State should develop something of the experience and dignity of a body of Elder statesmen.....that body will give to the Council a senatorial character, and the qualities usually regarded as appropriate to a revising chamber". The president of the council is appointed by the Governor-General from among the members, whether elected or nominated.

The Legislative Assembly.

It has a membership of 144 of whom 104 are elective and the remainder are either ex-officio or appointive members. Of the 40 not less than 26 can be officials. Under rules contemplated in the Act of 1919, the numbers may be varied, provided that at least $\frac{5}{7}$ of the membership shall be elected and at least $\frac{1}{3}$ of the rest officials. The house sits for three years. For the first four years after the inauguration of the reforms, the President of the Assembly was the nominee of the Governor-General. But after that period the Lower House has elected its own President and Deputy-President from the body of elected members, subject to the approval of the Governor-General. Every member of the Executive Council must be nominated by the Governor-General as a member of one of the Chambers.

The method of election for both chambers is direct.

Election. The distribution of seats and the arrangement of constituencies for both chambers are on a provincial basis.

The elective seats assigned to the different provinces for each chamber are shown :—

| | Legislative Assembly | Council of State. |
|-------------------|----------------------|-------------------|
| Bengal | 17 | 6 |
| Bombay | 16 | 6 |
| Madras | 16 | 5 |
| Bihar and Orissa | 12 | 3 |
| United Provinces | 16 | 5 |
| Punjab | 12 | 4 |
| Central Provinces | 6 | 2 |
| Assam | 4 | 1 |
| Burma | 4 | 2 |
| Delhi | 1 | ... |

Powers of the Assembly.

Every proposal for expenditure must be submitted to the vote of the Assembly. The exceptions to this practice relate to the following matters in which the appropriations of revenue to the heads of expenditure are not submitted to the vote of the Assembly nor is any discussion allowed by either chamber :

- (a) Interest on loans and sinking fund charges ;
- (b) certain legally prescribed expenditures ;
- (c) salaries and pensions of persons appointed by the Crown or the Secretary of State in Council and,
- (d) expenditures classed as ecclesiastical, political and defence.

Another restriction on the financial powers of the Assembly is that if the Governor-General in Council is satisfied that any demand refused by the Assembly is essential to the discharge of his responsibility, he can act as if the demand had been assented to. This power, however, is exercised very rarely when the Assembly is wilfully recalcitrant or the demand refused is essential.

The Parliament of India.

The Indian legislature i.e. Parliament meets at Delhi and during summer months at Simla. The assent of both chambers is necessary for the passing of a bill into law, and any differences of opinion are to be settled by joint sessions. The Governor-General may, however, certify that a bill is essential and on that certification it shall become law, despite the non-assent of both chambers. Copies of proposed measures, to be thus enacted, must first be laid before Parliament and the consent of the Crown obtained. The Governor-General has the power of making Ordinances and the Governor-General in Council the power of making Regulations. Finally, the Governor-General and the Crown retain their powers of assent or reservation or disallowance of legislation.

Franchise.

The qualifications for membership to the Legislative Assembly are the same in each province and as for candidates for the provincial legislative councils.

The qualifications for voters are a little complicated. There are three different voters' lists, one for electing members of the Council of State, another for the Legislative Assembly, and a third for the Provincial legislatures. The differences hinge on the amount of property or taxes which qualify, the amount being the lowest for local legislature electorate, somewhat higher for the Legislative Assembly and highest for the Council of State list of electors.

CHAPTER 4.

The Central Government

Contents : The Government of India—Executive. System of general administration. Instrument of Instructions. Powers of the Governor-General. The Viceroy's Executive Council. Its composition and method of appointment. Its position. Departmental Secretaries, their status. The great Departments of Government of India.

The Government of India consists of the Governor-General in Council. He is popularly called the Viceroy and acts as the representative of the King of England and is appointed by the Crown, on the advice of the prime minister, for a period of five years. He enjoys a statutory remuneration of Rs. 2,56,000 a year. He has to rule on the basis of the Instrument of Instructions he receives from the king at the time of his appointment. The chief instructions are that he has to obey the Secretary of State, himself take and administer Oath of Allegiance. He enjoys the prerogative of pardon. He also is to make an endeavour to respect the wishes of the representatives of the people and encourage the provincial responsibility and help in the progressive

**System of
general
administra-
tion.**

**Instrument
of Instruc-
tions.**

realisation of responsible government in India, conceived as an integral part of the British Empire,

Powers of the Viceroy.

The Viceroy and the Governor-General is assisted in the work of government by a council consisting of the heads of the various departments. In theory, he is the President of the Council, having a casting vote in case of equality of votes. He has, however, power to overrule his council in respect of measures affecting the safety and tranquillity and in other matters which he considers essential. He is also empowered to make Ordinances in case of emergency which, however, have the force of law for six months only. He enjoys the prerogative of pardon and also considerable immunities. He may override the action of the Indian parliament by "certifying" that any legal provision or any item of expenditure is essential to the welfare of India. He has also power of control over the local legislatures every act of which has to be assented to by the Governor-General before it can become valid. But, instead of disallowing any legislative measure, he may also reserve it for the signification of the pleasure of the Crown. There are certain matters in which no measures may be introduced, either by the central or local legislature, without his previous sanction. These matters relate to loans, religious practices or political and military affairs. From all this it is apparent that

the Viceroy may be, if he chooses to be, an autocrat. For one thing, he is not subject to any control in India. His actions, however, are subject to the control of the British electorate working through the Parliament. The Secretary of State's salary now forms a part of the British Estimates and this has been deliberately adopted in order that the parliamentary control on the Indian administration may be really effective. Much more may be attained if the British elections will be contested on the Indian question.

He comes to India with an open mind and does not identify himself with any party. Standing as he does, above party politics, he holds the balance steady and by his overriding and certifying powers can promote the real interests of India.

The Viceroy's Executive Council.

Until 1919 the Executive Council consisted of six members but this statutory maximum was abolished by the Act of 1919. The Council, euphemistically called the cabinet, at present consists of six ordinary members, each member being in charge of one of the following departments : Home, Finance, Law, Education, Health and Lands, Commerce and Railways and Industries and Labour. The Commander-in-chief is an extraordinary member as Army Member. Three of the six ordinary members are, in practice, recruited from among the members of the Indian Civil Service. The Law Member is without a portfolio as he has no department

to administer. Three members of the Council are now Indians. The Governor-General is the President of the Council and he has to appoint one of the members as its vice-President.

The Governor-General and the members of the Council are appointed by the Crown on the advice of the Secretary of State for India, for a period of five years. All the members of the Council must have seats in either house of the legislature. The Governor-General must sign all orders of the council. He has a casting vote, but he is to act according to the majority of votes, unless he is of opinion that the safety, tranquillity or important interests are at stake, and in such cases he may override the decisions of his council arrived at by majority votes. As every member of the Council also participates in legislation, the Council, to all intents and purposes, functions as a Cabinet. But from the standpoint of a constitutional lawyer they are not Cabinet members as an adverse vote of the legislature can not remove them from office during their statutory tenure. The Viceroy himself is responsible for the most important administrative department—the Foreign and Political Department. In respect of rank and precedence, the Commander-in-chief comes next after the Governor-General.

Each department is in subordinate charge of a Secretary. The position of the Secretary is similar to that of a permanent under-secretary of state

in the British system of government. The Secretaries of the various departments, however, hold an enviable position as they meet the Viceroy once a week, bring to his notice all matters of importance and discuss direct with the head of the Government of India without the intervention of the members concerned. Under each Secretary there are Deputy, Under and Assistant Secretaries and the permanent establishments.

An account of the great Departments of the Government of India—Departmental System.

This department is under the direct superintendence of the Governor-General. It is organised in two branches with a Foreign Secretary for the Foreign Department and a Political Secretary for the Political Department. The Foreign Department regulates the relations of the Government of India with Nepal and the neighbouring Asiatic states. The Political Department (through Residents or Agents) deals with the Indian States and Feudatories. Other matters dealt with by the Department are control of Frontiers, administration of Baluchistan, conferring of titles, looking after political prisoners and the like.

It deals with the general administration, the Indian Civil Service, internal politics including law, order and justice, police, the Indian Arms Act. It acts as a "medium of communication between the Crown and the subject." The Indian

1. Foreign and Political Department.

2. Home Department.

Public-Service Commission, provided for in the Act of 1919, is under the administrative control of this Department:

3. **Legislative Department.** It deals with government bills and drafts rules and regulations for conduct of business in the Legislature and has to deal with the legal aspects of provincial legislations.

4. **Department of Education, Health and Lands.** It deals with land revenue, agriculture, famine-relief, public health, forests, co-operation, civil veterinary administration. The member in charge is usually, though not invariably, not recruited from the Civil Service.

5. **Department of Industries and Labour.** The department deals with subjects relating to the development of industries, labour legislation; and irrigation, roads buildings dealt with by the Public Works Department also form a part of the department,

6. **Department of Commerce and Railways.** This department deals with commerce, customs, internal and international trade, post and telegraphs, salt, excise, opium and railways. But the Railways are really managed by an intermediate authority, the Railway Board, of which the Chief Commissioner is the head.

7. **The Army Department.** The Commander-in-chief, an "extraordinary" member of the Council, represents the Department.

CHAPTER 5

The Judicial System.

Contents : Codification of Law. High Courts. Various grades of other courts. Trial by Jury. Improvement in the administration of Justice.

Before the transfer of India to the Crown a complicated system of law existed in India. It was "hopelessly unwieldy, entangled and confusing."

Codification of law The first steps towards codification were taken in 1833 when a Commission was appointed to prepare a penal code. Lord Macaulay was the moving spirit of this Commission. The Penal Code became law in 1860 and was followed by a Code of Criminal Procedure in 1861. These two codes contain the entire system of criminal law.

The administration of civil justice is most efficient. The rules of civil procedure have been embodied in the Code of Civil Procedure.

The Administration of Justice.

For purpose of administration of justice India has a system of courts which try cases and punish the law-breakers and thus mete out even-handed justice.

The highest legal tribunals are the High Courts

of Judicature, constituted by the Indian High Courts Act of 1861 for Bengal, Bombay and Madras, and later on for the United Provinces and the Punjab. These superseded the old Supreme and Sudder Courts. In recent times High Courts for Patna and Burma have been constituted. The Judges of the High Courts are appointed by the Crown and hold office during the pleasure of the Sovereign. One-third are barristers, one-third recruited from the judicial branch of the Indian civil service and the remaining one-third recruited from the Indian lawyers.

For other parts of India, High Courts have been formed under different names. The main point of difference is that such courts owe their existence to, and derive their powers from, the Government of India instead of the British Parliament. In Burma there is the Chief Court. In other provinces the appealable authority is the Judicial Commissioner.

The High Courts are courts of appeal from the superior district courts, both criminal and civil, and their decisions are final except in cases in which an appeal is preferred to the Judicial Committee of the Privy Council in England whose decisions are final. The High Courts exercise supervision over the lower courts and also over magistrates in the districts.

Various grades of other Courts.

In order to bring justice as near as possible to the door of the people each district in a province is provi-

ded with a judge. He tries both civil and criminal cases. Next below him, is the District Magistrate whose court tries criminal cases only ; the sub-judges and munsiffs try civil suits. So suitors may appeal from the decisions of the magistrates, sub-judges and munsiffs to the district judge. From the decisions of the latter appeals may be preferred to the High Court, the Chief Court or the Judicial Commissioner, as the case may be. The final appeals, as stated above, may in some cases be taken to the Judicial Committee of the Privy Council in London.

Courts of honorary magistrates. In the towns honorary magistrates are appointed. In the presidency towns presidency magistrates deal with magisterial cases and honorary magistrates deal with less important cases.

Coroners' Courts Coroners are appointed for the Presidency towns of Calcutta and Bombay. In all other places their duties are performed by the staff of the magistrates and police officers unaided by jurors.

The civil courts below the grade of District judge are the courts of subordinate judges and munsiffs. There are in addition a number of courts of small causes which have jurisdiction to try money suits up to Rs. 500. In the Presidency towns such courts dispose of money suits up to Rs, 2000,

Courts of Small Causes.

Trial by jury is the rule in original criminal cases before the High Courts. Trials before inferior courts of sessions take place either with juries or assessors. The latter assist but do not bind the judge by their opinions. The jury decides the question of fact and the judge applies the law. Considerable latitude of appeal is provided for in the law. The Governor-General-in-Council and the local Government have the prerogative of mercy and may grant pardon without prejudicing the superior power of the Crown. It may be stated that if the accused is a European British subject the jury must consist of a majority of British subjects.

Improvement in the administration of justice.

A great improvement has been effected in the administration of justice. The laws have been simplified and codified. Courts have increased in number so that the suitor has not to travel far to find a judge to get him to hear his case. Law's delays are proverbial, but steps have been taken with a view to expedition. Neither is justice very expensive. Considerable latitude is given for preferring appeals. In serious criminal cases, the right of the accused to be tried by a jury is being extended in many parts of India. All these improvements in the administration of justice have taken place since the transfer of the Government to the British Crown. The great majority of the judges are Indians and the integrity, legal acumen and sound-

ness they show in dealing even-handed justice are really remarkable. Civil cases and important criminal cases are tried by judges who have no concern with administrative policies (except in backward places). The separation of judicial and executive functions, carried far has undoubtedly contributed to efficiency and purity in the administration of justice. No doubt minor criminal cases are tried by magistrates, but this is not without its redeeming features. This is not a creation of British rule in India. It is a perpetuation of a system which prevailed from a long time past. It has also the merit of economy.

CHAPTER 6.

Police, Jails and Prisons.

Contents : Improvements and Organisation of the Police. The C. I. D. Thana and Thanadar. Presidency Police. Present state of things. Composition of the Police. Jails improvements. Recommendations of the Jails Committee.

Closely connected with the administration of justice is the work of the police as they are charged with the maintenance of peace and order. The duty of the police is to promptly obey and execute orders and warrants issued by competent authorities. They also prevent the commission of offences. They apprehend and arrest the criminals.

In the pre-British days the police force of a village consisted of the village headman and watchman. The former had magisterial powers and directed the latter and asked him to detect and arrest criminals. The office of the watchman was hereditary and he used to be rewarded with a free gift of land and occasionally with a house to house collection of a small tax. During the time of the Moguls this system was continued, but a supervising magistrate over a number of villages was instituted.

With the advent of the British, reform and re-orga-

nisation of the police have been carried on. Notable improvements have been made in the police system since 1861.

Improvements and Organisation of the police.

Although the present system dates from the year 1861, considerable improvements were made in the time of Lord Curzon who appointed a Commission in 1902. In every district there is a chief police officer, the D. S. P. (District Superintendent of Police) who has powers of enlistment and dismissal of constabulary.

He is subject to a dual control. The force he commands is placed at the disposal of the District Magistrate for maintenance of law and order within the district. But the departmental working rests on a system of departmental hierarchy of Deputy Inspector-General of Police, Inspector-General of Police and Home Department.

The Curzon Police Commission of 1902 modernised police working and created specialised police agencies, under Local Governments, for purpose of investigation of specialist crime. These agencies are known as Criminal Investigation Departments who work under the Deputy Inspector-General.

In the district town the D. S. P. has his office, his Headquarter Police Lines and parade ground. The Stores and Armoury are located here. The armed police, two hundred or so strong,

**Head-
quarters.**

moult guard on the Treasuries and provide prisoner escort.

In the city and the hamlet the police station is popularly known as the *Thana* and the officer as *Thanadar*. To the thana the people come with their complaints and grievances. One officer is always kept on duty at the Thana. And in case of complaints "cognisable by the police," the recording, visiting and investigation are started. In case of a non-cognisable complaint, it is recorded in a book specially maintained for the purpose and the complainant has to seek redress in Court. In case of cognisable complaints, the accused is prosecuted and prosecution in court is conducted free of charge by a police prosecutor. In sessions trial the cases are conducted by the Public Prosecutor.

In the Presidency towns the Police Commissioner is responsible both for law and order and for departmental efficiency. He is not subordinate to the Inspector-General of Police as he deals direct with Government.

The police are now handsomely paid. They are intelligent and better disciplined and more honest than they were half a century ago. One noticeable feature is the absence of a close and efficient co-operation between the police and the public and this constitutes a real handicap to the prevention and detection of crime and accounts for

their general unpopularity. Every citizen should consider that he has a high civic responsibility to discharge and unless the police secure the whole-hearted co-operation of the public, the odds will always be in favour of the criminal. The police at the same time must think that they are servants and not masters of the public and try to follow the commendable British traditions and ideals.

In addition to the District and rural police, the Civil Police consists of the Railway Police, the River Police and the Criminal Investigation Department. Another branch of the Police Force in a presidency or province consists of the Military Police.

Composition of the Police.

The Government have undertaken various reforms of the police system. Serious attention is paid to the training of individual officers. The study of universal history of mankind reveals that with increase of education civic consciousness develops and this makes possible a close co-operation between the police and the public. Education also generates a respect for law, order and authority. In short, with progress of civilisation and improvement in the efficiency and honesty of the police a better state of things will emanate. All crimes will be at a discount and will sooner or later disappear.

Jails and Prisons.

The question of Jails is inseparably connected with

the police and administration of justice. Jail administration is regulated by the Prisons Act of 1894 and the orders issued under the Act by the Government of India and Local Governments.

Jail improvements date from the year 1889 when the Jail Commission was appointed. They recommended, among other things, that in each Presidency there shall exist three kinds of Jails,—Central jails, District jails and subsidiary jails. The Jail Department is controlled by the Inspector-General and the district jail is under the charge of the Civil Surgeon.

Since the introduction of the Reforms the maintenance of Prisons is a Provincial reserved subject. The Indian Prison administration was the subject matter of enquiry in recent years by the Jails Committee who recommended certain useful measures :

- (i) Improving and increasing Jail accommodation ;
- (ii) providing education for prisoners ;
- (iii) developing prison industries ;
- (iv) separation of civil from criminal offenders and
- (v) creation of juvenile courts

The sanitary conditions of prisons have been improved, wholesome diets introduced and facilities of medical treatment and medicines provided for. The

reformative precaution is taken, by segregating the habituals from ordinary prisoners.

Another Commission of Enquiry was appointed in 1919 to enquire into the system of jail administration which reported in 1921. The Commission advocated a few reforms but most of them have been held in abeyance owing to paucity of funds.

CHAPTER 7

The Services.

Contents : Indian Civil Service, Recommendations of the Lee Commission. Excellence of the Services.

The Indian Civil Service is the chief Indian service and nearly all higher posts are reserved by statute for this service. So long the government of India was in the hands of the East India Company all officers were appointed by this body. After the transference of the government in the hands of the British Crown a system was introduced under which appointments were thrown open to competition by examination held in London. The object was to secure the ablest products of the British universities who would serve in India.

After the inauguration of the Reforms in pursuance of the policy laid down by the declaration of August 20, 1917, the conditions had naturally to be altered. Indian political opinion seemed to regard the self-government granted to the transferred subjects in the provinces as incomplete, as the All-India Services were under the ultimate control of the Secretary of State.

In 1922, in deference to public opinion, was issued the famous "O'Donnell Circular" in which the arguments

for and against a drastic reduction or complete cessation of European recruitment were summarised and issued to the local Governments. And Mr. LLOYD George delivered the "Steel-frame" speech in which he declared that he could see no period when India could dispense with the guidance and assistance of a nucleus of the British Civil Services.

A Royal Commission under the Chairmanship of Viscount Lee was appointed in 1923 and its report was published in May 1924. The main recommendation which was accepted by the Secretary of State is that recruitment to the fields of transferred department will be made entirely by or on behalf of local governments. Another important recommendation likewise accepted is the increased Indianisation of services which remain on an All-India footing and under the ultimate control of the Secretary of State. But the progress of Indianisation must be cautious. The pressure exercised to introduce the principle of communal representation in the recruitment would mean a breakdown of the administrative system.

In pursuance of the policy of a gradual and a progressive realisation of responsible government in India, a large number of Indians are employed in the public services. Examinations for a certain number of posts in the civil service are held in India. There are now nearly 1300 civilians all over India, of whom nearly 200 are Indians. India owes a deep debt of

gratitude to some of the finest civilian British administrators who have shown a great solicitude for amelioration of the condition of the Indian masses. Much of England's work in India has taken its inspiration from the British civilians. It is the poor and illiterate dumb agricultural millions who have to be thankful to them. The Services have established a strong and unified administration all over India. The

Excellence of the Services. Indian Services represent the power of organisation, executive efficiency and methods of administration and these constitute the most valuable assets. "The greatest credit is due to the British people in having provided India with this strong and durable administrative foundation."

The credit of developing the Provincial services, mainly Indian in personnel, but deriving the best traditions of sound administration from the all-India services, is also due to the British people.

The services hold enormous political authority in various ways :

The senior members are in charge of the important Provincial subjects on the Reserved side. And they combine both parliamentary and administrative functions. The Governors of five out of eight provinces are senior civilian officials. Moreover, permanent official heads of departments are nominated to every Legislative Council where they speak and vote. And if the responsible form of government in the transferred side

is to be real, the ministers must be allowed authority of parliamentary heads over their departmental officials.

At the same time it is but fair and just that the Services should possess effective guarantee against political corruption. It would be a disaster if the superior services which have built magnificent traditions were to be mere playthings and were allowed to pander to communal and selfish interests. The best guarantee is to continue the power now vested in the Governor so that no injustice may be done to the officials.

CHAPTER 8.

Revenue and Expenditure of the Central Government.

Contents. Past and Present system of Imperial finance. Financial decentralisation—Lord Mayo's reforms. Further Decentralisation of 1877. Quinquennial settlement. Semi-permanent settlement. Welby Commission's recommendations. Central and Provincial sources of revenue. Readjustment of financial relation. Meston award. Sources of Imperial revenue. Items of Imperial expenditure.

The public revenues were centralised since 1833 by the Government of India and the constitutional reforms of 1861 did not provide for any relaxation of control in favour of local governments. The revenues of India constituted one single fund, the central government retaining full control over the entire revenues and the demands made thereon. The Provincial governments had to apply to the Central government for funds for meeting local needs. No additional expenditure, even the appointing of a peon on Rs. 10 per month, could be incurred without the previous sanction of the Government of India. No principle existed in the distribution of funds to finance local needs and provincial governments could secure money only by putting up a clamour; the distribution "degenerated into something like a

Past and present system of Imperial Finance.

scramble in which the most violent had the advantage with very little attention to reason".

In 1871 decentralisation was started at the instance of Lord Mayo whose reforms raised the status of local governments. Each provincial government was made responsible for meeting the expenses of certain definite services like police, jails, education and medical services from grants that were permanently fixed. By exercising economy in expenditure and imposing certain local taxes, the provinces could provide for increased expenditure and thus was obviated the necessity of referring to the central government, at every step, with the smallest detail.

Financial decentralisation-Lord Mayo's reforms.

Further progress in decentralisation was made in 1877 and wider financial powers were given to the provinces, supplemented by fixed grants. Still more decentralisation was accomplished in 1882. Fixed grants were discontinued and, instead, the provinces were granted the whole product of some sources of revenue and a share in other sources. The heads of revenue and expenditure were now distinctly either Imperial or Provincial or Divided. The settlements, called provincial contracts, were quinquennial and so a periodical revision had to be undertaken. The Provincial governments, at the end of the five-year period used to rush through expenditure.

Further decentralisation of 1877.

Quinquennial Settlement.

Evidently, there was no incentive to economy. In 1904 the financial relation of the central government to the provincial governments was placed on a semi-permanent basis. But the inequities remained unredressed. The system of divided heads of revenue and expenditure only helped to produce bitterness and irritation. As a result of the appointment of the Welby Commission and their recommendation to give to the provinces more distinct sources of revenue and greater powers over the budget, the provinces were given greater latitude in 1912. A radical change in the financial readjustment was, however, made in 1921 as result of the introduction of the Reforms.

Semi-permanent settlement.

Welby Commission's recommendations.

The famous declaration of 1917, "the progressive realisation of responsible government in India as an integral part of the British Empire" was the objective and was to be attained by gradual steps. The authors of the Joint Report remarked, "if the provincial autonomy is to mean anything real clearly the provinces must not be dependent on the Indian Government for the means of the provincial development"

An administrative demarcation of spheres of Central and Provincial activities synchronised with a financial cleancut. And the central sources of revenue have been completely separated from the provincial sources. The system of divided heads has been done away with and the central

Central and Provincial Sources of revenue

governmental control over the provincial governments has been considerably relaxed.

Certain sources of divided heads of revenue, viz., land revenue, judicial stamps, excise and irrigation, became entirely provincial. The central government ran the risk of having to face a deficit budget and as the provinces stood to gain, a system of provincial contribution, accepted by the Joint Committee, had to be introduced.

The Financial Relations Committee, presided over by Lord Meston, recommended what each provincial government would have to contribute to the central government. And the initial provincial contributions, being of an arbitrary nature, were to be modified to make them more equitable. The Joint Committee were fully conscious of the disadvantages attaching to the system of provincial contribution and rightly recommended their speedy termination. With improvement of the finances of the central government, the provincial contributions were successively reduced until their final abolition in 1926.

Readjustment of financial relations; Meston award.

Principal sources of Revenue of the Government of India.

The chief sources of Imperial revenue are :

Sources of Imperial Revenue

1. Income tax. 2. Customs. 3. Salt. 4. Opium. 5. Railway receipts. 6. Irrigation receipts. 7. Posts and Telegraphs. 8.

Currency and Mint. 9. Military receipts. 10. Provincial contributions (now abolished).

Principal items of Imperial Expenditure.

The chief heads of expenditure are :

- | | |
|---|---|
| Items of Imperial Expendi- ture. | 1. Military Services. 2. Civil administration. 3. Debt Services. 4. Currency and Mint. 5. Commercial Services. 6. Forest and other Capital outlay charged to Revenue. 7. Civil works and 8. Miscellaneous Civil Services. |
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CHAPTER 9

The Indian States.

Contents: Area and population under Indian States. Obligations of Indian States. Rights of Indian States. Residents and Agents. A closer partnership between the Paramount Power and Indian States.

Reference has been made to the administration of what is known as British India. The other part of India which is not under the British Administration, but covers an area of 675, 267 square miles and contains a population of about 70 millions, consists of the Indian States. The total number of Indian States is nearly 700 and they vary in size from petty states like those of the Chiefs of Kathiawar or the state of Lawa or the Simla Hill States to extensive territories (as large as Italy) ruled over by the Nizam of Hyderabad. These states are in various stages of political and economic development. But one common feature to all these is the personal rule of a prince who controls both the legislation and the administration of justice.

Obligations of Indian States.

The rulers all acknowledge the supremacy of the British Government and owe to it loyalty and allegiance.

They have no right to make war or peace or to enter into negotiations or alliances either with external states or with one another. In short, all the Indian States are subject to the paramount authority of Great Britain in the following matters :

- (i) The Paramount Power acts for them in relation to foreign Powers and other Indian States.
- (ii) The Paramount Power prescribes for the Indian States their military forces, their equipment and armament. It should be remembered that the Indian States are not to keep any military establishment except for police purposes or for the sake of co-operation with the Government of India.
- (iii) The British government also assumes a general responsibility for the maintenance of peace and sound administration in each Indian State. The principle set forth by Lord Canning in his minute of 1860, quoted below, is upheld for all time :

“Government of India is not precluded from stepping in to set right such serious abuses in a Native Government as may threaten any part of the country with anarchy or disturbance, nor from assuming temporary charge of a Native State when there shall be sufficient reason to do so.” And whether

any such necessity has arisen or not, the Governor-General in Council is the sole judge, subject to the control of Parliament.

- (iv) The Paramount Power also assumes direct responsibility for the safety of British subjects who are residents in Indian States.

Rights of Indian States.

The important Indian states are practically autonomous in their own territory. The constitutional position depends on some treaty or engagement with an Indian State or on usage. The British Government, of course, reserves the right to interfere in case of misgovernment. But subject to this limitation, the Indian princes and their subjects are free from the control of the laws of British India. They secure the advantages of commerce, the railways, the ports and the markets of British India. Generally speaking, they have the freedom of trade with British India.

How the Paramount Power exercises its control over Indian States.

The powers are exercised through Political Officers. In the larger Indian States, the British Government is represented by a British Resident appointed by that Government; in the others by an Agent to the Governor-General. These officers form the channel of communication between the Government of India and the Indian States.

**Residents
and Agents.**

Recent developments and the evolving of a closer Partnership between the Paramount Power and the Indian States.

The trend of events is to draw the Paramount Power and the Indian States into closer touch. The sons of the ruling Princes receive their education in colleges specially maintained for the purpose. The scions of the ruling chiefs also receive military training. Spread of education improves the character of the administration which tends to approximate to democratic ideals. This has also meant a relaxation of control of the Government of India in the internal affairs of the Indian States. The following lines taken from the speech delivered by Lord Minto at Udaipur in 1909 express, in an authoritative way, the new policy adumbrated :

"Our policy is, with rare exceptions, one of non-interference in the internal affairs of the Native States. But in guaranteeing their internal independence and in undertaking their protection against external aggression it naturally follows that the Imperial Government has assumed a certain degree of responsibility for the general soundness of their administration and could not consent to incur the reproach of being an indirect instrument of misrule. There are also certain matters in which it is necessary for the Government of India to safeguard the interests of the community as a whole as well as those of the paramount power, such as

railways, telegraphs, and other services of an Imperial character. But the relationship of the Supreme Government to the State is one of suzerainty. The foundation stone of the whole system is the recognition of identity of interests between the Imperial Government and Durbars and the minimum of interference with the latter in their own affairs."

CHAPTER 10.

System of Provincial Government.

Contents : Evolution in the system of Provincial rule. Decentralisation of Powers by the Act of 1919. Central and Provincial subjects. Transferred and Reserved subjects. Relation of the Central Government to each set of subjects.

Dyarchy. Position of the Governor of a Province. Discredit of dyarchy, reasons for this. Views of the Reforms Enquiry Committee on the matter.

The Constitutional position of the Governor and the Ministers. Powers of Governors of Provinces.

The Provincial legislature. The Electorate. Powers of the Provincial Legislative Councils.

Revenue and Expenditure of the Provincial Governments.

From the beginning of British rule, the administrative system has always been highly centralised..

Evolution in the system. Subject to the superintendence, direction and control of the Secretary of State and Parliament, the Government of India was vested in the hands of the Governor-General in Council. But, for the sake of administrative facilities, the system of centralisation was gradually modified. A gradual devolution in favour of local governments, in matter of detail, was the consequence. From the beginning of the 20th century, the tendency of the

Parliament and Government of India to delegate certain original functions of the Government of India to Provincial administrations, has been pronounced. The tendency towards decentralisation and the need for perfecting the machinery of provincial governments were confirmed by the Montagu-Chelmsford reforms. Experience in self-government is acquired best from the lowest scale in the political system i.e., villages, towns, districts and provinces. This lesson of political experience was utilised in the framing of the Government of India Act of 1919. And this Act has been responsible for giving a larger modicum of self-government to the Provinces, instead of to India as a whole. This change of policy can be exemplified by instituting a comparison between the present and the pre-reforms days. The Provincial Governments, before 1919, were officially known as Local Governments. The governing of India was vested in the Governor-General in Council who maintained a strict control of provincial administration. And in all matters, financial, legislative and administrative, the Provincial Governments were bound hand and foot to the central authority. No notice was taken of local sentiments and traditions and the Decentralisation Commission naturally stressed on the importance of developing a strong sense of responsibility among the subordinate agents. The process of devolution set in from 1870 onwards, and from that time the Provincial Governments were given

**De-centra-
lisation.**

fixed grants of revenue and the right of taxation. During the viceroyalty of Lord Lytton, the sources of revenue came to be regarded either as Imperial or Provincial or Divided. There was a modification of this system during the incumbency of Lord Curzon when the Provincial revenues were definitely assigned. But these assignments were based not on the revenues of each province, but on the legitimate demands of individual provinces. And so the Government of India had to keep a strict vigilance on provincial expenditures. In brief, during the pre-reform days, the Provinces were under the very complete control of the Government of India, the local governments existing as so many subordinated agencies.

The Act of 1919 has made elaborate provision for further decentralisation and a much further development of the organisation and powers of provincial governments.

The framers of the Act of 1919 were to solve the problem of distribution of powers between the central and provincial governments. This was done by distinguishing between the central and provincial subjects. And broadly speaking, all matters of local importance are listed as provincial subjects and are administered by the provincial authorities.

Provincial subjects are further divided into *trans-*

ferred subjects and *reserved* subjects. The list of transferred subjects includes education, sanitation public health, agriculture and industry, local self-government, public works, fisheries, excise, registration and religious and charitable investments.

Provincial subjects subdivided into transferred and reserved subjects.

The Governor-General in Council retains unaltered powers of control over the Provincial governments in their administration of "reserved" subjects. But with regard to "transferred" subjects, neither the central government nor the British Parliament has any right to interfere except in emergent situations. Hence the provincial governments, in administering "reserved" subjects, remain under the direct supervision from the central government. The most important "reserved" subjects are : the administration of justice, the control of police, Revenue and Finance. The understanding is that these reserved fields of administration will be eventually abolished in course of time so that the provincial governments will become autonomous entities,

How the provincial administrations are carried on.

For purpose of administration British India is divided into 15 provinces. In 9 of these provinces (three of which are presidencies of Bengal, Bombay and Madras and the United Provinces, the Punjab, Bihar and Orissa, the Central Provinces, Burma and Assam, the Provincial Government consists of a

Governor, an Executive Council of not more than four members and ministers. The remaining six provinces are administered by Chief Commissioners who act as mere agents of the central government. And no change in the system of administration of these six provinces has taken place by the Act of 1919.

The "Dyarchy" or Dualised form of Government.

The administration of each of the nine Provinces is in the hands of a provincial governor and the governor is assisted by an executive council, consisting usually of four members. The governor and the executive councillors are appointed by the Crown. This body is responsible for the administration of the "reserved" subjects. For the conduct in their administration, the Governor and the Executive council are responsible to the Viceroy and not to the local legislature.

The Provincial governor is also assisted by ministers whom he appoints from among the elected members of the local legislature and who hold office at his pleasure. To the Governor and the ministers is entrusted the administration of "transferred" subjects. The ministers are, however, responsible to the provincial legislature. This duality of government by which certain functions are performed by the governor and his executive council and the other functions by the governor acting with ministers, is known as "dyarchy".

The word 'dyarchy' was first used by the historian

Mommsen to describe the early Roman system of provincial government in which "the emperor required the concurrence of the Roman senate for some of his acts but not for the others".

'Dyarchy' is an experimental measure and not a permanent administrative arrangement. "It is a compromise between home rule in all matters, and home rule in none".

Discredit of Dyarchy.

The chief feature of the Reform Act of 1919 was the devolution of powers to Provincial Governments. Provincial autonomy was the avowed object. Dyarchy is a stepping stone for establishment of complete responsible government in the provinces. In pursuance to the objective, in respect of transferred subjects, the provinces became autonomous, the ministers being made responsible to the elected legislature.

Dyarchy seems to have broken down and many reasons may be assigned for its failure :

(1) At the outset of the reforms, owing to the rearrangement of the financial system of the provinces and the central government, the latter was faced with a large deficit. And to enable it to produce a balanced budget, the provinces, had to make contributions in proportion to their increased revenue. The share of each Province was settled by a committee of which Lord Meston was the chairman. (The award is otherwise known as the Meston award.) The result was

that provinces had no adequate funds to help in their natural development. The ministers were placed in charge of "nation-building" departments (such as education, sanitation and local government) which, however, were starving as sufficient funds were not available. "The Meston award had killed the child even before it was born".

(2) The Joint Select Committee were opposed to the proposal of a divided purse between the two halves of the administration. Rule 36 (1) of the Devolution Rules made Finance a Reserved subject, placed under the control of an Executive Councillor. The Finance department exercised great control over all new schemes and discouraged proposals involving expenditure of money. The ministers were thus unwittingly placed in a position from which there was no easy way out.. They were unable to carry out schemes for which they had the support of the people and the legislative council, but which could not materialise as the Executive Councillors got larger sums by way re-appropriation. This handicapped the ministers and fettered the activities of the legislature. "The Finance Department was the nerve system of the whole scheme ; that nerve system was not only weak, but diseased ; weak, because the Meston award had not worked out satisfactorily, owing to the continued deficit in the finances of the Central Government ; and diseased, because of its permanent alliance with the Reserved half."

(3) The government is an organic whole and its splitting up into two halves existing as water-tight compartments is artificial and produces a weakening in administration. In the Act of 1919 there is no provision for joint consultation between the two halves. But the Joint Parliamentary Committee laid stress on the desirability of fostering a habit of joint deliberation. It is difficult to say how far this principle has been carried out in practice. But complaints have been heard that except in Bengal and Madras, joint deliberation either has not been followed at all or followed for a limited time only,

(4) The opinion of Sir William Marris, Governor of the United Provinces, submitted to the Muddiman Committee shows the cumbrous nature of dyarchy : "Dyarchy is obviously a cumbrous, complex, confused system having no logical basis, rooted in compromise, and defensible only as a transitional expedient,....." "There is no half-way house between the present and a new constitution, concessions which fall short of complete provincial autonomy will secure neither stability nor contentment."

The possible alternative thus seems to abolish the dyarchical system and establish a unitary government responsible to and removable by the provincial legislature. This will accordingly necessitate a relaxation of the control of the Government of India over the Reserved subjects (as has been done in the Transferred

ones) and the establishment of the control of the local legislatures over the entire range of subjects.

The Reforms Enquiry Committee have summarised the specific allegations against the present constitution as follows :—

- (i) the failure to encourage joint deliberation between the reserved and transferred sides of the provincial governments ;
- (ii) the absence of joint responsibility of the Ministers ;
- (iii) the impinging of the administration of reserved upon the administration of transferred subjects, and *vice versa* ;
- (iv) the failure on the part of permanent officials to co-operate with the Ministers ;
- (v) the vesting of the control of the Finance Department in a Member of the reserved side of the government, the control thus given to the reserved side over the Ministers and, generally speaking, the handicapping of the other departments by excessive financial control ; and
- (vi) the failure of the constitution to vest real authority in the Ministers owing to the control of—(a) the Governor ; and (b) the Government of India and the Secretary of State.

The pertinent conclusions of the Reforms Enquiry Committee (1924) as to the working of dyarchy are reproduced below :

A complex constitution like dyarchy, requires more particularly to be worked by reasonable men in a reasonable spirit, if deadlocks are not to ensue. If, recently, in some of the provinces, it has not achieved the expected measure of success, it is because it was not worked on the lines and in the spirit which was intended. We hold in fact that, except by some form of dualism, it was not possible to afford an equally valuable training towards responsible government in India and still to safeguard those conditions upon which government depends.

Governors of Provinces are appointed by the Crown on the recommendation of the Secretary of State. So also the members of the Executive Council. The Governor ; his Executive Councilors and Ministers The ministers, appointed by the Governor from among those elected members of the legislature who are expected to command the support of the majority of that body, hold office during the Governor's pleasure. But their retention of office is dependent upon their ability to retain the confidence, not only of the Governor, but of the Provincial Legislative Council, upon whose vote they have to depend for their salaries.

As head of the provincial executive, the Governor has the constitutional right of overruling his ministers.

The ministers have of course the right to resign and if they happen to enjoy the confidence of the legislature, it may be difficult for a governor to choose fresh ministers for purpose of a stable government. The Governor possesses the constitutional right of dissolving the legislature. But this will not alter the situation unless the new legislature is of a different composition. The Instrument of Instructions which is issued to the Provincial Governors under the Royal Sign Manual contains guidance on this constitutional point. In considering whether he will override the minister's opinion or not, the Governor will pay due regard to the relation of the minister with the legislature and take into consideration the wishes of the people, as expressed by their representatives in that body. And in case of any vacancy in the office of the minister, the Governor is to temporarily carry on the administration of transferred subjects so that all deadlocks may be averted.

The Governor of a province has two sets of powers, one positive and the other negative. On the positive side, the Governor, in his executive capacity, may make an Act for a reserved subject, if he certifies the measure to be essential for the discharge of his responsibility, even if the legislature refuses to pass it. But (except in matters of urgency) any Act so made is reserved for his Majesty's pleasure (after being placed

The constitutional positions of the Governor and the Ministers.

Powers of Provincial Governors summarised.

before both Houses of Parliament) and does not become law until the royal assent is obtained.

The negative power comprises the following cases :—

- (a) He may veto an Act of the provincial legislature ;
- (b) or return it to the house for reconsideration ;
- (c) or he may reserve it for consideration of the Central Government ;
- (d) or he may prevent a bill from being introduced if he certifies that the bill or any amendment to it affects the safety of his, or any other, province.

He has also extensive powers with regard to Supply. If the legislature reject a provision of money, for a reserved subject which he certifies to be essential for discharge of his responsibility, the Governor may cause the Treasury to pay the necessary sums. He may also disallow a resolution or a motion for adjournment, if it is detrimental to public interest.

The Provincial Legislature.

In every Governor's province there is a legislative council. The Governor is not a member of this body, but the members of the executive council are. The Governor has the right of summoning the legislative council and addressing it. The membership varies in the different provinces. Thus Bengal has 139, Bombay

111 and Madras 127, Bihar and Orissa 103, United Provinces 123, Punjab 93, Central Provinces 68, Assam 53 and Burma 101 members. According to the statute there cannot be more than 20 per cent official members and at least 70 per cent must be elected members. Rules may be made of course for increasing the membership of any legislative council, provided the 20 and 70 per cent proportion is maintained. The Governor also nominates a certain number of members.

Electorates.

The electorates in each province are arranged on a basis designed to give separate representation to different races, communities and the special interests. Constituencies are divided into general and special constituencies. Those based on a racial distinction (like Mahammadan, European, Sikh etc.) are "general" constituencies, those which are designed to represent special interests such as Landholders, Commerce, University are "special" constituencies.

Qualifications of Voters.

The qualifications of voters, as well as of candidates, slightly vary in detail as between different provinces (because of lack of uniformity of laws which form the basis of assessment of income or property). On the whole, the franchise, both for urban and rural areas, is based on a property qualification. This is measured by the payment of a prescribed minimum of municipal rates and taxes in an urban area and cess

in a rural area, or income tax. But in all provinces retired, pensioned or discharged officers and men of the regular army are eligible as voters whether or no their property qualification comes up to the prescribed minimum.

In Bengal, there are altogether 94 constituencies of which 9 represent trade and industry, and the university ($8 + 1 = 9$), and the rest are arranged on a territorial basis. The electoral area for a Muhammadan or non-Muhammadan constituency is a district (or a portion of a large district) in the rural areas; in the case of urban areas, the constituency is a group of municipal towns. The city of Calcutta sends 8 representatives from 8 separate constituencies, 6 being non-Muhammadan and 2 Muhammadan constituencies.

The statutory length of a Provincial legislative council is three years. The Governor's powers of dissolution before the expiry of its term, the summoning of another council or adjournment are similar to those of the Governor-General in his relation to the central legislature. But the Governor cannot extend the Council for more than a year. Each legislative council has a President and a Deputy President. The first Presidents of Provincial Councils were appointed by the Governors. On the expiry of four years, the office has become elective (subject to the approval of the Governor). But from the start every council has an elected Deputy President.

Duration of the Councils

Powers of the Provincial Legislative Councils.

The Provincial legislative councils have the power of assenting to or withholding assent to a demand or reducing the amount. This power is, however, subject to certain limitations :

With regard to reserved subjects, the Governor has the power of overruling the council's decision if he certifies that the expenditure is essential to the discharge of his responsibility. Again, expenditure in cases of emergency can also be authorised by a similar certificate, if, in the Governor's opinion, it is necessary for the safety and tranquillity of a province, or for the carrying on of any department. The Legislative Councils are not entitled to vote or to hold any discussion on the following subjects :

- (a) Interest and sinking fund charges on loans.
- (b) Expenditure the amount of which is prescribed by law.
- (c) Salaries and pensions of persons appointed by the Crown or the Secretary of State.
- (d) Salaries of judges of the High Court and Advocate-General.

The legislature can make laws for the peace and good government of a province. It may not, however, make any law affecting an Act of Parliament. And without the previous sanction of the Governor-General, it cannot take into consideration any law concerning these subjects :

- (a) Imposing a new tax ;
- (b) law affecting the public debt of India ;
- (c) law affecting the discipline of any part of His Majesty's Naval, Military or Air Forces.

Governor in relation to law making.

A bill becomes an Act when the Governor gives his assent. But the Governor may veto the bill ; or, if he gives his assent, it has to be followed by the assent of the Governor-General. The Governor-General may withhold his assent, but he has to signify in writing the reasons for the exercise of his veto. Sec. 82 of the Act also provides for the veto of the Crown.

In case of a bill passed by a local legislature, the Governor has the power to return the bill for reconsideration, in whole or in part, together with amendments, if any. Or, he may reserve the bill for the consideration of the Governor-General. And such a reserved bill becomes law if the Governor-General assents within six months of reservation. But it lapses after the expiry of the period.

Revenue and Expenditure of the Provincial Governments.

The division of the Indian Revenues between the central and the provincial governments follows the lines marked out by the division of central and provincial subjects. The provincial subjects are divided into "reserved" and "transferred" subjects. The latter have

been handed over to the control of the ministers who are dependent upon, and responsible to, the elected representatives of the people in the Provincial Legislative Councils.

The apportionment of funds between the reserved and transferred departments is intended to be made by agreement between the two halves of the government, with the Governor at the head of both.

The principal sources of revenue assigned to the provincial governments are :

1. Land revenue. 2. Irrigation. 3. Excise. 4. Stamps. 5. Registration. 6. Forests. 7. Receipts from provincial departments. The provinces now, under the Reforms, have powers of borrowing and of imposing fresh taxes. They also have a share in the additional revenue derived from income-tax which is collected in the province so far as that growth is attributable to an increase in the amount of income assessed.

The main items of expenditure of Provincial Governments.

All heads of provincial expenditure are divided into Reserved and Transferred heads. The former relate to those services which are in charge of the Governor and the Executive Councillors who are not responsible to the provincial legislatures. All that the legislatures can do is to influence, and not determine their policy.

The latter relate to those services which are in charge of the ministers who are responsible to the legislature both for their policy and administration. Certain heads of expenditure are not at all submitted to the vote of the Provincial Legislative Councils (they are non-voted).

The main heads of Provincial expenditure are ;

1. Land Revenue. 2. Excise. 3. Forests.
4. Interest on ordinary debts. 5. General administration. 6. Police. 7. Jails. 8. Education (reserved and transferred). 9. Medical and Public Health.
10. Agriculture. 11. Industries. 12. Construction of Irrigation.

CHAPTER 11

Local Self-Government

Contents : Field of local self-government as affected by the reforms of 1919. Description of a typical Indian village. The village institutions. Village autonomy. Panchayats. District and Local Boards. Their powers and duties.

The field of local self-government has been profoundly affected by the Reforms of 1919. And local self-government is one of the transferred provincial subjects. During the last half a century the system of local self-government by municipalities and local boards has steadily developed. Lord Mayo introduced a scheme of decentralisation in 1870, and Lord Ripon's government laid down in 1882 the principles upon which decentralisation was to be based. By the Local Government Acts of 1883 and 1884, the elective principle was universally applied throughout India. They provided for the establishment of local and district boards. The foundation of representative institutions was thus laid by Lord Ripon. Just before the Reforms, the local boards and municipalities had been reconstructed on a more democratic basis. And an awakening of civic consciousness had begun. The official control over local bodies was relaxed and they were placed under non-official chair

men. Under the auspices of the ministers, the municipalities and district boards were greatly reorganised. The franchise for municipalities and district boards was lowered. In fact the introduction of the Reforms was, to a large extent, responsible for democratisation of local bodies. An epoch-making measure was introduced into the Bengal Legislative Council by the late Surendra Nath Banerjee, Minister for local-self-government and passed into an Act. The Act democratised the Calcutta Corporation and the sex disqualification was removed for municipal franchise. In Bihar and Orissa three measures were passed, calculated to liberalise the local bodies.

But the progress in local self-government has been most conspicuous in the presidency towns and in municipalities. The self-governing local institutions may be divided according as they are rural or urban.

A short description of the different types of rural institutions.

In India the village constitutes the primary territorial unit of organisation and a complete chain of local governing organs, from the village to larger and larger administrative units has been built. The village is a territorial unit and groups of villages forming larger administrative units are known as *tashils*, subdivisions and districts.

A vivid description of such a village is worth

reproduction from the Imperial Gazetteer : "The typical Indian village has its central residential site, with an open space for a pond and a cattle stand. Stretching around this nucleus lie the village lands, consisting of a cultivated area and grounds for grazing and wood-cutting.....The inhabitants of such a village pass their life in the midst of these simple surroundings, welded together in a little community with its own organisation and government, which differ in character in the various types of villages, its body of detailed customary rules and its little staff of functionaries, artisans and traders". This type of village, however, does not exist in the greater part of Assam, Eastern Bengal and parts of the Madras Presidency, the people living in small collections of houses or in separate homesteads.

Three types of villages may be distinguished :

- (a) The *ryotwari* village where the revenue is assessed on the individual cultivators ; it is almost universal outside Northern India. The original headman-leader is recognised by the Government, but individual assessment has deprived him of his original influence. He is now a servant of the state and is paid for his services.

In Madras the headman is known as *munsif* or *manigar* and the village accountant *karnam*. They get rent-free land and are in the pay of government.

In the Bombay presidency is found the hereditary *patel*. His salary bears a proportion to the gross revenue of the village.

- (b) The village under the permanent settlement. The village headman, known as *mukhya*, *mandal*, *pradhan*, is a creature of the Zamindar. The corporate life of the village cannot much develop as the Zamindar eclipses every village functionary.
- (c) The joint or landlord village of the Punjab, United Provinces and the Frontier Province. The village headman, the *lambardar*, and the accountant, *patwari*, have also lost much of their original influence. It is in this type of village that the co-proprietors constitute a local oligarchy with the bulk of the village population as their tenants.

The villages have lost much of their original autonomy owing to the establishment of local and criminal courts, the revenue and police organisation and growth of ideas of individualism. Nevertheless, the village remains the first unit of administration.

Village autonomy.

The development and revival of the village council-tribunal or *panchayat* received the special recommendations of the Decentralisation Commission of 1908. And in the series of rural self-governing institutions, the Panchayats or Union

Panchayats

Boards are the starting points. They ascend through local boards to district boards which form the most important self-governing bodies in rural areas.

The village Panchayat Act, passed by the Punjab Government, has established in the village councillors to whom judicial powers, criminal and civil, of a minor character have been assigned. The village Administration Act, on similar lines, has been passed by the government of Bihar and Orissa. In 1919 there was passed in Bengal the village Self-government Act embodying the policy of constituting Union Boards for groups of villages throughout Bengal. A Circle Officer was appointed for a group of unions as an intermediary between the people and government. The villagers have thus been brought into close touch with the administration. Members taken from Union Boards constitute Union Benches and Courts for administering civil and criminal justice. And these institutions have been showing a great vigour and vitality. A similar development is also noticeable in Bombay. These acts passed in the different provinces bid fair to restore to the Panchayat its old position and revivify it in villages where it died out.

The investing of the Panchayat with judicial powers, in civil and criminal cases, is an important feature of legislation. Fines in criminal cases up to Rs. 50/- may be imposed. In civil cases suits up to a maximum value of Rs. 100 come within their jurisdiction. The

procedure for trial is simplified and no legal practitioners are allowed to appear. The sources of income are levies, similar to *Chaukidari* rates, grants-in-aid by District Boards to be supplemented by additional funds by means of taxation.

In view of the fact that 10 per cent of the people live in towns and the rest in villages, a special importance attaches to the working and constitution of District Boards. These boards perform in rural areas functions which in urban areas, are assigned to the municipalities.

**Local
Boards and
District
Boards.**

In every District there is a board, subordinate to which are two or more sub-district boards; union committees, in addition, in some provinces. Generally, every subdivision has a Local Board and its powers are much enlarged. It corresponds with the English District Council and acts as a hyphen between the Union Committee and the district board. The tendency throughout India has been to increase the elected members at the expense of the nominated and official members. "The boards are practically manned by Indians, who constitute 96 per cent of the whole membership. Only 11 per cent of the total members of all boards are officials of any kind".

The powers and duties of local boards are performed as agents of district boards. The principal objects of expenditure are education which has of late come to the fore;

**Powers and
Duties of
District
Boards.**

front and civil works like roads and bridges. Attached to a district board is an education committee. Medical relief also shares with education and some boards are entrusted with the task of famine relief, census and vaccination. A district board takes the rank of the English County Council.

The most important item of revenue is provincial rates which form from 25 to 63 per cent of the total income. The other sources of income are rents from markets, sale of night soil and grants-in-aid from the provincial revenues. Another committee attached to a district board is the Finance Committee. The responsibility of keeping the accounts and control of expenditure devolves upon this committee. Both the Chairman and vice-Chairman of the District boards are honorary office bearers and the most important salaried officer is the District Engineer.

**Financial
resources
of District
Boards.**

CHAPTER 12

Local Self-Government (Contd.)

Contents : Different types of urban self-governing institutions. Municipalities. Their position and functions. City Improvement Trusts. Calcutta Improvement Trust. Its activities and finances. The Calcutta Corporation. Its constitution and financial position. Port Trusts of India. Finance. Certain Municipal Problems.

A description of different types of urban self-governing institutions.

Municipal administration up to 1842 was confined to the presidency towns under Royal charters and subsequently under statutes. An Act passed in that year for Bengal was followed by another act passed in 1850 which was extended to the whole of India. Subsequently other Provincial Acts were passed for creation of municipalities. Commissioners could be appointed to manage municipal affairs. But as they were mostly nominated no impetus could be given to self-government. Progress, however, commenced from 1870 when Lord Mayo's government introduced the system of Provincial finance and laid stress on the necessity of promoting local interests like education, sanitation, medical charity and local public works by local bodies which were to serve as the training-ground of democracy.

A real democratic beginning was made when the elective principle was introduced and municipal acts for the various provinces were passed between 1871 and 1874. During the Viceroyalty of Lord Ripon orders were issued in 1881-82 for extension of the principle of local self-government. And profound changes were introduced by the Acts passed in 1883-84 which greatly modified the constitution, powers and functions of the municipal bodies. The elective system was allowed to predominate and some town municipalities were allowed to elect a private citizen as chairman. Provisions were made for increasing municipal resources and some heads of provincial revenue and expenditure were delegated to the local bodies.

At present there are more than 780 municipalities in British India with upwards of 21 million people living within their jurisdiction. Compared to the total population of a province a certain percentage lives within municipal areas. It is perhaps the highest in Bombay (20 per cent) and lowest in Assam (2 per cent). As regards the composition of the municipal bodies, ex-officio members are only 7 per cent, nominated members 25 per cent and the rest are elective.

The functions of municipalities are generally classed under four heads—Public Safety, Health, Convenience and Instruction. The water supply, the drainage, the lighting of the streets, the levying of local rates and taxes, scavenging and

cleansing, control of markets and food stuffs and vaccination, care of the sick are in the hands of municipalities.

The most important sources of income are the taxes on houses and buildings, the octroi or its substitute, the terminal tax. The limitation of funds is a real handicap. And augmentation of funds is a prime requisite for attainment of which municipal trading may be more extensively utilised.

Financial resources of municipalities

City Improvement Trusts.

A notable feature in the recent sanitary history of India is the part played by the great cities in the matter of social improvements. Energetic Improvement Trusts have been instituted by Government in Bombay and Calcutta. In the former city the development is taking place under the auspices of the Bombay Development Directorate. Other cities following in the wake of Calcutta and Bombay are Cawnpur, Lucknow, Allahabad and several other larger cities.

Calcutta Improvement Trust.

The Trust was created by Government in 1912 for providing for improvement and expansion of Calcutta. This was to be accomplished by opening up congested areas, laying out streets, providing parks for recreation and ventilation and also by re-housing the working classes who would be

Objects.

dislodged when improvement schemes are carried out.

The Trust have done away with insanitary *bustees* in Central Calcutta, and improved roads have been laid out. Many parks have been constructed by the Calcutta Improvement (amendment) Act of 1931, the Board of Trustees have been empowered to levy betterment fees on properties which abut on to a new street instead of acquiring the properties. The activities have also been extended to Suburban Areas to the south of Calcutta. Finally, for the housing of the displaced residents the Trust started building three blocks of three-storied tenement buildings containing many lettable rooms. These not proving sufficiently attractive, the Board now have taken to providing the people with sites for bustees.

To meet the huge expenditure, the Trust has borrowed Rs. 2,48,50,000. The other sources of receipts are the sale of land and buildings and the income from the annual surplus.

The Calcutta Corporation—its Constitution and Functions.

Certain Presidency Municipalities like those of Calcutta, Bombay, Madras and Rangoon are constituted by Special Acts. The Municipal administration of Calcutta is carried on by a body of men known as the "Corporation." Its constitution was thoroughly reorganised by the Act of 1923. The Act owes its

inspiration to the late Sir Surendranath Banerjee who, as Minister of local self-government, piloted the bill through the Bengal legislative Council, and considerably democratised the Corporation. One remarkable feature of the Act is the relaxation of official control and the vesting of the properties and management of the affairs of the Corporation in a body in which the elective element predominates. The franchise has been extended and women, under certain conditions, are admitted into it.

The Corporation, since the amendment of 1932, consists of 91 Councillors and the membership is constituted as follows :

Its constitution.

- (a) 76 elected Councillors ;
- (b) 10 Councillors nominated by the Government of Bengal (to secure the representation of minorities including the backward and labouring classes) ;
- (c) 5 Aldermen to be elected by the Councillors at a meeting of elected and appointed Councillors provided that no Councillor shall be entitled to be elected as an Alderman.

Of the 81 elected seats, 21 are reserved for the Mahommadans, 6 for the Bengal Chamber of Commerce, 4 for the Calcutta Trades Association, and 2 for the Port Commissioners and the remaining 48 elected by the general constituencies.

The term of office is three years. The Corporation elects the Mayor and the Deputy Mayor who hold office for one year. The Mayor (and in his absence the Deputy Mayor) presides at the meetings of the Corporation. The Corporation appoints the Chief Executive Officer and two Deputy Executive Officers, the Chief Engineer, Health Officer, Chief Accountant and Secretary who are the Principal salaried officers, the appointment of them (except the last two) being subject to the approval of the local Government.

The Corporation each year appoints standing committees and delegates some of its powers to such committees. No committee consists of more than twelve members. Each committee appoints its Chairman and Deputy Chairman. Any standing committee may appoint one or more sub-committees. The Corporation also may appoint special committees to inquire into any matter of special importance.

The Corporation possesses vast and valuable municipal property. The income is derived from many sources such as rates on lands and buildings, vehicles, trades and professions, water and lighting rates etc. The annual revenue is approximately Rs. 2½ crores i. e., one-fifth of the Revenue of the Government of Bengal. Its resources compare favourably with those of the Government of Assam.

Port Trusts of India.

The administrative affairs of the large ports of

Calcutta, Bombay, Madras, Karachi, Rangoon and Chittagong are vested by law to the Commissioners who have wide powers. Government, however, exercises a greater control over their proceedings than in those of municipal bodies. In the composition of these port trusts the European element predominates. The Board of Rangoon is almost exclusively European in composition.

The Commissioners for the Port of Calcutta are taken as follows :

A Chairman and a Deputy Chairman (both Europeans); six members elected by the Bengal Chamber Commerce, one by the Calcutta Trades Association (all Europeans); three elected by the Bengal National Chamber of Commerce (Bengalees), one elected by the Indian Chamber of Commerce, one elected by the Calcutta Municipal Corporation. Besides these, there are five members nominated by Government.

The Port Trusts have large sources of income. (The Calcutta Port Trust had an income of nearly Rs. 3 crores of rupees in 1930-31). They help in the development of water transport and trade of the country.

Certain Municipal Problems.

Municipal bodies of the various provinces are confronted with different sets of problems. Certain

problems are peculiar to city municipalities and they are problems of improvement of housing conditions to remove over-crowding and adoption of measures of sanitation. The supply of pure food is another requirement.

The problem of water supply is insistent in the small municipalities. It may be suggested that opening of tube wells or artesian borings will go a long way in the solution of the problem.

The prevalence of epidemic diseases such as plague, influenza and cholera, Kala-azar and small-pox are taking a heavy annual toll and their extirpation calls for vigorous policies of sanitation and medical relief. Improved sanitary conditions, the supply of pure water, removal of congestion in towns and the provision of medicines and disinfectants are effective remedial measures. The appointment of medical men in times of epidemics and compulsory vaccination, specially to combat small-pox and cholera, are highly welcome measures. In villages, stagnant pools and puddles, ditches and *nullahs* and obnoxious jungles are the breeding centres of mosquitoes which together with a general obnoxious atmosphere produce malaria which works its ravages.

The inhabitants of rural areas are quite alive to the advantages of improved sanitation, but are unwilling to face the corresponding financial obligations. They show a marked reluctance to tax themselves. But the

municipal progress is very satisfactory in the great cities and the city fathers have addressed themselves to the performance of the local duties. The problem of problems, however, is educational. The best way to combat the city and village problems is to fight illiteracy. Once it is removed by adoption of elaborate schemes of education, medical relief, sanitary improvement and other matters of local improvement will be easier of accomplishment. Education alone can remove the age long inertia of the people and foster a civic consciousness and a readiness on their part to make greater sacrifices for realisation of civic improvements.

CHAPTER 13.

Education.

Contents : India's fundamental problem. Ill-balanced educational system. Primary education. Secondary and high school education. The University system. Professional and technical education.

Many of India's problems may be traced to one root e.g., a general lack of education of the masses. And unless this defect is remedied it is rather unlikely that any well-balanced economic and political development is at all possible. In short, the realisation of the aspirations of the people towards nationhood, a broadening of outlook, emancipation of the women-folk from the social bondage, progress of sanitation and the fighting of diseases which commit their ravages, will not materialise without a wide-spread system of education. And the task is gigantic. Notwithstanding the multiplication of schools and the increasing percentage of attendance of children in them, there is considerable room for their expansion and, what is more important, for introducing changes in the curriculum. As matters stand, about 6 per cent of the people respond to the test of literacy. The financial problem is no doubt a heavy burden. The problem, however, has to be courageously faced and overcome.

Now that education is a provincial transferred subject in the hands of ministers, it may be confidently hoped that the electors will use their persuasive influence for a wide diffusion of education.

The Indian educational system is ill-balanced.

Education ill-balanced. The poorer classes are illiterate and the middle classes receive a literary education and look forward to employments in Government services or in the legal profession. Vocational education is almost conspicuous by its absence and a time has come when more attention has to be given to this aspect of the question so that the over-crowding in the "white collar" professions and the chronic unemployment of the middle classes may be partially removed.

Primary Education—The policy of the Government is to provide for adequate facilities for imparting primary education to every Indian of school-going age. The number of institutions for males and females is steadily increasing and in 1931 there were 204, 384 recognised primary schools in British India. But agriculturists have found that their children are not receiving that kind of education which will fit more in the agricultural profession which they have to adopt sooner or later.

Secondary and High School Education.

In spite of an almost universal craving for secondary and university education, this type of education also

suffers from certain serious defects. Secondary education is generally of a poor standard and has to be remodelled in order to bring it more closely into contact with the needs of India. The university has to recognise schools, but has no money to improve them. The Department of Public Instruction allots funds to them, but has no responsibility so far as the recognition of schools is concerned. This dual control and responsibility produces many unhappy results.

The University System.

Of late, university education has undergone a striking change in consequence of the lead given by the recommendations of the Calcutta University Commission. The University, instead of presenting "a phantom existence as an examining body," was recommended by the commission to centralise teaching conducted under the direct control of University authorities. Intermediate Colleges were to constitute a link between secondary schools and University courses of study.

Professional and Technical Education.

Medical schools and colleges furnish instruction and the pupils are provided with facilities for hospital duties. The lady doctors propagate knowledge of medicine, nursing and surgery among women. The research institute at Pusa, the Imperial Council of Agricultural Research are useful institutions. Among Commercial Colleges the Sydenham College of Com-

merce stands first. Industrial institutions also exist in large numbers in every province and the most important ones are the Victoria Jubilee Technical Institute of Bombay and the Indian Institute of Science at Bangalore. There exists also a large number of engineering schools and colleges. In addition to all these there are schools of art where architecture and the fine arts are studied. Two forest colleges exist at Dehra Dun and Coimbatore. Mining and Metallurgy are taught in the college at Benares. Finally provision has been made by the central government for training of cadets for the Mercantile Marine. The progress which these institutions has already made is not insignificant and augurs well for the future.

CHAPTER 14

District Administration

Contents : System of administration of territorial units. Unit of administration, the District. Powers and duties of the District Collector-Magistrate. Duties of the Collector. Duties of the District Magistrate. Other District Officials, the Superintendent of police and the Civil Surgeon. District Subdivisional officers. Judicial administration of the District.

The system of administration is based on the subdivisions of territory, each administrative area being in responsible charge of an officer who is subordinate in rank to another officer who is above him. The most important of these units of administration is the district. A Province consists of a collection of districts. Each district is again split up into subdivisions and each subdivision into smaller circles.

The unit of administration—the district.

Bengal, for instance, is administered by five Commissioners, each of the five divisions being in charge of a Commissioner. The unit of administration is the District Magistrate and Collector. An exception to this general practice is in Madras where there is no intermediate local authority between the District Collector and the authorities at the head quarters. Thus Divisional Commissioners do not exist in Madras.

Powers and duties of the head of the District.

The head of the district is styled the Collector-Magistrate. As representative of the Government he embodies the power of the state and the people of the district look to him for redress of their grievances and promotion of their welfare.

He acts in two distinct capacities as the chief magistrate. Originally, these two offices were separate. Under the system initiated by Lord Cornwallis in Bengal (later on extended to other places), the district officer combined the offices of District Magistrate and Civil Judge. The magisterial and judicial functions were subsequently separated and the head of the district came to be invested with magisterial and limited judicial powers confined to criminal cases only. The Collector dates from the time of Warren Hastings when the East India Company took over the fiscal administration of Bengal, Bihar and Orissa.

Duties of the Collector.

As Collector he supervises the ingathering of the revenue and is the head of all the departments connected with it. In the main, he is concerned with the land and the land revenue. The character of the tenure under which land is held not being uniform throughout India, his duties vary naturally in the various parts of India. The duties are specially onerous in the ryotwari areas of Bombay and Madras. Besides atten-

ding to the assessment and collection of land revenue, the Collector has to look after other connected matters such as the following :

- (a) Condition of the peasantry ;
- (b) supervising the compilation of returns of crops, rainfall, prices etc ;
- (c) adjudication in rent disputes between landlord and tenant ;
- (d) he also makes loans (takavi) to agriculturists ;
- (e) finally, he is responsible for the management of the district treasury into which government revenues are payable and from which the disbursements are made ; he has also charge of administration of excise, income tax, stamp duty and other sources of revenue.

Duties of the District Magistrate.

In the capacity of the Collector, the District Magistrate is responsible for the administration of criminal justice in the district. The magistrates are divided into three classes according to their powers in respect of imprisonment and imposition of fines. Besides the domain of Criminal Court, the magistrate is responsible for the peace of the district and suppression of crime. He also has control over the working of the police and supervises the management of the District Jail.

Other District Officials.

The two other important executive officers of a district are the Superintendent of Police and the Civil Surgeon. The former is responsible for the working and discipline of the police force. The latter is the head of the district medical and sanitary administration.

District Sub-divisions.

The Collector-Magistrate is assisted by a large staff of subordinate officers. Some of them are his assistants at the head quarters, others have charge of portions of districts. Generally, a Deputy Collector has charge of a sub-division (which is part of a District) under whom again work members of the subordinate executive service and hold minor charges (they are called Sub-Deputy Collectors).

District Judicial Administration.

Judicial administration of a District is carried on by a sort of gradation courts. These are :—

For both civil and criminal justice :

The District and Sessions Courts :

For Criminal justice only :

The Courts of the District Magistrate and Deputy and Sub-deputy Magistrates :

For civil justice only :

Courts of subordinate judges and Courts of District Munsifs.

CHAPTER 15.

A note on the White Paper.

Contents : The proposals for reforms on the Indian constitution which received the consideration of a Joint Committee of Parliament, have been issued by the Government of England in the form of a White Paper.

The proposals put forward may be briefly summarised as follows :—

- (a) The Provinces are given autonomy.
- (b) Except in regard to certain reserved subjects, the responsible form of government is conceded to a Federal Government.
- (c) The Federation is to consist of eleven Provinces, autonomous in character, and of the Indian States.
- (d) The Indian States will have to surrender a portion of their sovereign rights, but would retain a large measure of internal autonomy.

New Status of the Governor-General.

The Governor-General and Viceroy will have to work in a dual capacity. As Governor-General he will be the head of the Federation. As Viceroy he will deal with relations of states outside the sphere of Federation.

There shall exist three Departments which he shall have to personally administer, namely, Defence, External and Ecclesiastical affairs. In all other matters, the Governor-General shall be assisted by a Council of Ministers who shall be responsible to the Legislature.

Special responsibilities will attach to the Governor-General with regard to certain matters—matters in which he can make Acts on his own responsibility, even contrary to the advice of his Ministers. Some of these subjects are :

- (a) Danger to the peace of India ;
- (b) safeguarding of interests of minorities ;
- (c) looking to the financial stability of the Federation ;
- (d) safeguarding the interests of members of the Public Services ;
- (e) protection of rights of Indian States ;
- (f) prevention of commercial discrimination, and
- (g) all the matters affecting the reserved departments, as noted above.

The Governor-General is to continue his Ordinance-making powers in times of emergencies. He is also to assume control of government in case of its breakdown. Heads of expenditure affecting loans services, salaries and pensions of the I. C. S. and the

reserved departments may be discussed but not voted upon in the Legislature.

The Federal Legislature.

This is to consist of two houses. The Upper Chamber, the Council of State, shall consist of 260 members of whom 100 shall be appointed by the Princes, 150 elected by the members of the various Provincial Legislatures, and the remaining 10 shall be nominated members.

The Lower Chamber, the House of Assembly, shall consist of 375 members. Of this total membership, 125 will be assigned to the Princes and the rest elected by a system of direct election. Each province will be assigned certain seats such that the various interests may be represented.

The Provinces.

Like the Governor-General, the Governors of Provinces are given special responsibilities, limited in scope to the Provinces concerned, and the Governors are empowered to take action for their discharge.

The Provincial Legislatures.

The Provincial legislatures are enlarged. The allotment of seats and method of election shall be in accordance with the Communal Award of His Majesty's Government. The legislatures are to consist entirely of elective members in the Lower House. In three Provinces only, Bengal, United Provinces and

Behar, the legislatures shall be bi-cameral with a small proportion of nominated, but not official, members in the Upper Chamber.

The Council of the Secretary of State is to be abolished and in its place will be created a body of advisers, not less than three and not more than six in number.

A Federal Court is also to be constituted with Original and Appellate jurisdiction. It will deal with constitutional questions affecting the spheres of the Federal, Provincial and Indian States authorities.

A Supreme Court is also to be set up which is to act as a Court of Appeal in British India. It may be mentioned that Burma is not included in the proposals.

BOOK II.
(PART I)

ELEMENTARY PRINCIPLES OF ECONOMICS

ECONOMICS

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CHAPTER 1

Introductory

Contents : Economic activities of man. Some fundamental concepts : Welfare, Goods, Wealth, Utility, Value and Price.

Economic activities of man :—All human activities originate in the existence of wants the satisfaction of which is urgently necessary for a variety of purposes. Some wants are of a most elementary nature, i.e., wants relating to the human body and their satisfaction is a condition of human existence. Thus, the barest hunger and thirst, the craving for clothing and shelter are wants of a physiological nature and if a man is not to die of premature death, he must be fed, clothed and sheltered. Primitive man was concerned with the satisfaction of the aforesaid wants. But the progress of civilisation and march of time and enlightenment have introduced a variety in our wants ; wants multiply and tend to be more refined, intellectual and moral than physiological. A twentieth-century man considers that life is not worth living unless he will be able to minister to the intellectual culture and such a life is a better kind of life.

So far as the satisfaction of the varied wants is concerned, if a blind dependence on nature would

serve our purpose, no body would exert himself. If all things had been freely and gratuitously supplied to us, the conditions of life would be extremely easy. All human activities would altogether cease. Human *welfare* would be exceedingly great as welfare is associated with ease, abundance or plenty of things which are freely given to us.

But an abundant supply of "free" goods may not connote a state of prosperity. People of warm countries have not to use elaborate clothing to ward off cold ; food also, specially vegetable food, is procurable with comparatively little effort. But the climate checks the energy and destroys their self-reliance and blunts their character, and all intellectual activity is retarded. On the other hand, the people of temperate climes have to overcome many obstacles. Energy is stimulated, resources increase and happiness is maximised.

We may therefore conclude that :—

(1) different people have different wants ;

(2) in fact no two persons have exactly the same wants ;

(3) the demand of the same person varies from time to time (i.e., summer and winter wants, also wants in youth and old age), and with intellectual development. Hence, not only is there a variety of wants, they are also of a constantly changing character. Still another conclusion is that only a very small proportion

If the varied wants may be satisfied by a sheer dependence on nature, but the vast majority of wants remains unfulfilled. Rather than keep them unfulfilled, the economic activity of man is brought into play. The entire process is expressed in three words—wants; activities and satisfactions.

A few technical terms may now be introduced. By 'Goods' is meant any desirable commodity, tangible or intangible, i.e., anything that is capable of satisfying a human want. In deciding upon the question, whether anything is useful or not, we need not judge about its moral qualities. The use of wine may be condemned, but that is no reason why it should not be regarded as a good as it satisfies a specific want.

Goods are either "free" or "economic" or "public". A good is free when it exists in abundance and every one is fortunate to use as much as he likes. Hence, no one has an advantage over others in owning it, no one will devote his energy either in procuring or stocking it. The commonest examples are water, air, sunshine in ordinary circumstances of life.

A good becomes 'economic' through scarcity, i.e., through limitation of supply in relation to demand. Commonly speaking, some effort has to be given to bring a good into existence and it is this effort or labour that causes the supply to be

**Economic
and**

restricted. Thus water supplied to the municipal area, fresh air pumped within a mine are economic goods. But a good may also become scarce because of natural cause. Thus a gold mine becomes an economic good although it is a gift of nature.

Public Public goods are economic goods and so effort or expense is involved in their production, but are supplied free of charge to the people. Such goods are public parks, museums, picture galleries etc. which are free to the users, but are not free goods.

Definition of Economics. The sumtotal of a man's possessions is expressed by the Greek word 'ecos' and the method of managing them is called Economics. Skilful management of household affairs results in an adequate satisfaction of the wants of the household. Economics is, therefore, regarded as a science which deals with those economic activities that are calculated to minister to such wants.

Another way of viewing economics is to define it as a science of business activities of human beings. That which makes a man busy is his business of life and as we are all preoccupied with the satisfaction of immediate and future wants (and hence want to have some surplus) and as the wants recur at intervals, subsiding for the time being and again appearing, mankind has to be constantly busy throughout life.

The motive which goads a man to exertion is

called "economic motive" and a man actuated by such a motive is called the "economic man".

Economic motive and economic man. An economic man is supposed to know best the efficacy of means to end and, conscious as he is of self-interest, tries to secure the greatest result with the least exertion. But an economic man is a social being and the whole course of his life is influenced by a variety of motives, economic, intellectual, moral, philanthropic and the like. Only one set of activities, the economic, is singled out for purpose of economic study, but a man is no more an economic man in his entirety than a tyrant who is guided by humane considerations in a circumscribed domestic sphere of life.

All economic activities are concerned with the phenomenon called wealth and this is why Economics is defined as a science of wealth. This definition is true only if it is realised that wealth exists for man and not man for wealth. In other words, the science is not a "gospel of mammon" as there can be no wealth without man. Hence in all economic studies man comes to the forefront and wealth goes to the background. And the man referred to is a social being, i. e., a man in relation to other fellow beings and not by himself. Hence, Economics is "a science which treats of those social phenomena that are due to the wealth-getting and wealth-using activities of man."

As the science of Economics deals with man in

his relation to wealth, the whole field of economics
Subject may be subdivided into four sections,
matter of namely ;—
Economics.

1. Consumption of wealth.
2. Production of wealth.
3. Exchange of wealth.
4. Distribution of wealth.

Consumption has to deal with utilisation of wealth. Production deals with the activities that bring wealth into existence. Exchange of wealth causes the transference of ownership of wealth from one person in consideration of a similar transference of ownership of another form of wealth. Finally, distribution of wealth means the division of wealth among persons who participate in its production.

We are now in a position to explain what wealth is. The word 'wealth' is used in more senses than one.

What is wealth ? In a broad sense, wealth denotes anything that contributes to human welfare and therefore includes anything that satisfies human wants, whether or no its supply is limited, (fresh air, scenery etc. will be wealth in this sense). There are, however, divergent views as to what constitutes welfare. In fact, the idea varies according to the aesthetic, ethical or utilitarian standpoints. Another broad sense in which 'wealth' is employed is to include all goods except the internal goods,

The economists understand by it anything that satisfies a human want and is not unlimited in supply. Thus fresh air or natural scenery may be referred to as wealth in a metaphorical sense, but not in the economic sense. And this for the obvious reason that no one can gain advantage by possessing them. Wealth is generally associated with the product of economic organisation. This wealth is capable of being measured. As most forms of wealth are produced for exchange and are exchanged at some time or other, and exchanges take place through the medium of money, money becomes a common measure of exchange-values and conveniently expresses the total wealth in its term. People have been so accustomed to measure wealth by money, that the word 'wealth' is sometimes taken as equivalent to money. But the use of money is of recent origin and wealth existed long before money was introduced. The primary idea of wealth is, therefore, deeper than money. Wealth has four essential characteristics, namely ;—

- (1) In order that anything may rank as wealth it must possess utility, i. e., a capacity to satisfy some human want.

Utility.

- (2) Another requirement is that there must be a limitation of supply. Hence free goods are not wealth, but free gifts of nature, by reason of limitation of supply constitute wealth (e.g. a gold mine or a coal mine.)

Scarcity.

(3) Another virtue of wealth is appropriability (i.e. capable of being appropriated). Thus the electricity generated in lightning is not wealth, but the electricity manufactured in a power house is, because it is put to our use.

(4) The final attribute of wealth is that it must be external to man and as such capable of being transferred. Thus a man's faculty of teaching forms a part and parcel of the man and admits of no dissociation and is not, therefore, wealth. This faculty is, of course, instrumental in earning money which is wealth.

Adam Smith has preferred to call such qualities as capacity of teaching, singing etc. "personal wealth," but not wealth in the strict economic sense, for the simple reason that wealth exists for man, but the man is not wealth.

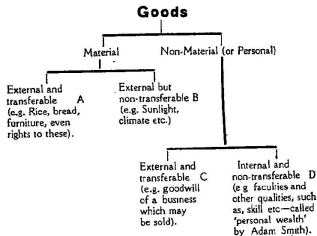
One misconception regarding wealth should be guarded against. Because wealth is external to man it does not necessarily follow that it is invariably a tangible commodity. Wealth may consist of material as well as non-material goods (i. e. services), as both yield satisfaction.

For the sake of clearness of thought, we may enumerate below, in a classified form, the specific articles and services that constitute wealth.

All wealth consists of goods (i. e. desirable or useful

things), but all goods are not wealth. As 'goods' is a genus and wealth a species, the following classification of goods will be useful; as some will be reckoned as wealth, others not.

Classification of goods.



Wealth is a phenomenon of social life and thus anything that is not transferable is not wealth. Hence 'wealth', in the economic sense, refers to the following kinds of goods :—

(1) All material, external, transferable goods (A), except those that are free and unlimited in supply.

(2) All non-material, external, transferable goods (C). Hence, neither the B nor D classes of goods are wealth,

We may now distinguish between the various classes of wealth :—

Various classes of wealth : (1) National wealth. It is a vague expression and includes individual wealth of members of a nation together with such national advantages as natural resources, geographical position, navigable rivers, good harbours etc., none of which, however, is wealth in the strict economic sense as these national assets are not transferable.

Social or collective wealth. (2) Social or Collective wealth. This is used as a substitute for national wealth. It refers to such things which are held in collective ownership and over which the people have no right in their individual capacities (e.g. art galleries, parks etc., which are municipally or nationally owned, but, not individually).

Negative wealth. (3) Negative wealth. This is the sumtotal of obligations. Thus the national debt (undoubtedly wealth to the individual investor) is an evidence of the nation's liability and is its negative wealth.

Cosmopolitan wealth. (4) Cosmopolitan wealth. This is wealth of mankind irrespective of mankind being diffused throughout the world as members of different states.

We desire goods on account of their utility and utility means the power to satisfy human wants. The

test of utility thus is actual service. If an article satisfies the want of an individual, the utility is an individual utility. If, however, many persons want it, the utility is a social utility.

Utility should not be confounded with benefit and the popular idea that things are useful in the proportion in which they are beneficial, has to be discarded. Utility simply is the power to satisfy wants, it never means the power to confer benefits.

A matter of every day occurrence about utility may now be stated. It is that the more we have of a thing, the less eager we are for getting more of that thing as we get diminishing utilities from the additional amounts of the thing. In other words, additional amounts, (called doses) of the same thing yield diminishing utilities and if the doses be indefinitely continued, the point of satiety is reached. If a man is now given the option of having it or not, he will not want it any more, but rather would want to have some other article instead, as all enjoyments pall, if repeated.

If, however, the doses be pressed on, beyond the point of satiety, the utility from each additional dose is zero, less than zero, i.e. negative. Each dose now, far from affording any satisfaction, is a source of pain. This statement of a universal occurrence is a mere statement of a tendency known as the law of Satiability of Human Wants or, simply, the Law of Diminishing Utility.

**Law of
Diminishing
Utility.**

The student of elementary economics is puzzled over the term 'value'. The term is also unfortunate, since it is ambiguous. A few examples will show that the word is really perplexing : "value of prayer", "value of diamond", "value of mother's love", "value of stable government". Obviously, value is not used in the same sense in all these cases, unless value is taken to mean "usefulness". But 'value' and 'utility' are not convertible terms. In an expression like the 'value of a piano', the obvious implication is the sum of rupees which can procure a piano. The commonest sense thus denotes the rate at which a thing exchanges.

The great Scotch economist Adam Smith distinguished between the two senses of value by the expressions "value in use" and "value in exchange". The 'value in use' of a thing simply refers to the utility derived from using the thing. A distinction is also made between marginal value in use and total value in use.

"Value in exchange" means, however, what a thing will exchange for. And what a thing can be exchanged for may be expressed in terms of money, and value in exchange then simply means its price.

Modern economists reserve the word "utility" to denote value in use and "value" then relates to value in exchange. In short, price means the money value of anything, i.e., the amount of money for which it will

exchange. But value in exchange is not necessarily measured in terms of other goods, and this actually is the case in barter. Whether we refer to barter or money economy, value is ascribed to a thing on account of the exchange of that thing for some other thing. The value of a commodity, therefore, means its power of commanding other things in exchange. And the value of a thing is high or low according as it can be exchanged for a large or small quantity of other things.

Value is a relative term, expressing as it does, a relation of exchange between commodities. Suppose that a commodity procures less of other things in exchange than before, it falls in value, but simultaneously, the other things have risen in value. All things cannot rise or fall at one and the same time. A change in the value of one thing (rise or fall) produces a converse change (fall or rise) in the value of the rest. Hence, there can happen neither a universal rise nor fall in values. There can, however, be a general rise or fall in prices and this is, by no means, an uncommon phenomenon of economics.

CHAPTER 2.

Consumption—Wants and their Satisfaction.

Contents :—Meaning of Consumption. Relation between production and consumption. Characteristics of wants. Law of Diminishing utility or Satiability of human wants. Total utility and Marginal utility. Marginal utility and Price.

Meaning of Consumption :—By 'consumption' of wealth we mean the use of wealth for satisfaction of human wants. Consumption is the execution of the purpose for which wealth was produced.

Consumption does not involve primarily or even necessarily the destruction of wealth produced. It is true that such destruction is sometimes attendant upon consumption, but this is by no means essential to every case of consumption. The essence of consumption, to repeat, is the utilisation of a thing, i.e. the gratification or satisfaction of a human desire. No doubt, in some cases, the satisfaction is yielded once for all as in drinking down a glass of water and this involves absolute destruction. But more often the satisfaction is extracted out of an article and it is diffused over a comparatively long period of time, e.g., satisfaction from the use of a house. A painting is consumed when it is placed on a wall, seen and appreciated.

Some economists draw a distinction between final and productive consumption. By 'final' consumption they mean the ultimate satisfaction, such as is derived from the eating of food and by 'productive' consumption is meant the consumption of one thing for purpose of production of another thing. Such a distinction is not, however, essential as consumption is the satisfaction of wants in whatever form the wants may appear.

Final and Productive Consumption

Relation between production and consumption.

It is the necessity of satisfaction of wants that provides the impulse of all human activities. In fact, consumption controls the direction of productive efforts. Wealth is produced because wealth has to be consumed. The ultimate regulator of all demand is the demand of the consuming public and the whole economic structure rests upon the principle of satisfaction of human wants. But the emergence of a want is not the sole condition for setting in motion productive forces. What is needed, in addition, is one's ability or competency for making the want effective. i. e., faculty to purchase a thing when it is made. This is otherwise expressed by the statement that the demand must be effective in order that productive efforts may be directed to provide for its satisfaction. A hotel keeper will not cook food if a crowd of starving beggars has gathered round his hotel, but shall be all attention if a car has stopped in front of it.

Characteristics of Wants :—The characteristics of human wants may be enumerated under the following heads :—

(1) Human wants expand in number and variety. As man progresses from a state of savagery to civilisation, his wants become varied, his capacity to enjoy enlarges and he lives a fuller existence. After the absolute wants have been satisfied, they are followed by others and men desire variety. Man is driven to economic activity which in turn serves to arouse in him new wants which demand satisfaction. Thus, with increase of civilisation, desires multiply, become of infinite variety and renewed effort must be made to satisfy them.

(2) Human wants are capable of being graded in the order of their importance, though the degree of importance of the wants of different individuals varies with the spread of civilisation. Less time is spent in obtaining the bare necessities of life, such as food, clothing and shelter and proportionately more time is devoted for attainment of culture, education, art, literature and so on.

(3) So far as any specific want is concerned it is capable of attaining the point of satiety or absolute satisfaction. If a man is gradually supplied with doses or units of a particular thing, the more he has of it, the less is the satisfaction.

he will get from additional amounts of it. Human nerves grow weary of a repetition of stimulus and any attempt to continue the enjoyment of some sensation indefinitely results in satiation. This fact of fundamental importance with regard to human wants is known as the "Law of diminishing utility or satiability of human wants"

- (4) Sometimes wants are competitive and when this is the case the law of substitution is applied as one want may have to be given a priority to another.

**Competitive
wants**

- (5) When two or more wants go together they are said to be complementary, such as want for a carriage, a horse and a driver.

**Complementary
wants**

The Law Of Diminishing Utility Or Satiability of Human Wants ;—Reference has already been made in an earlier chapter to this law which is a truism in so far as different doses of the same article are concerned and no time is allowed to lapse. But vary the things supplied and the result is different. The diminution in utility may be prevented from happening or the satiety indefinitely held in check as no limits exist for all the goods taken together.

What is true of this law is also true of other economic laws, namely, that an economic law is a statement of a tendency. Unlike the laws of exact sciences like mathematics,

**Limitations
to the Law
of Diminishing
Utility**

the laws of economics are of a hypothetical character. Hence, every law has to be stated in a guarded language and the limitations clearly laid down, in order that it may square with facts. And this is why Marshall has said that the economist will have to use the word 'probably' at every step.

The limitations to the law may be stated as follows :—

(1) The desire for wealth (and not for any particular commodity) and for money which is an instrument for securing all other commodities, is said to be an exception. The appetite for wealth grows by what it feeds on. Strictly speaking, however, it is not an exception as the desire for wealth is a desire for getting a variety of goods ; also with wealth the more urgent wants are first satisfied and then the less imperious wants.

(2) The desire for wine is said to increase, with every gratification. But alcohol, continuously administered, will make the drinker ultimately sick.

(3) The desire for collection of extant specimens of stamps ; this again is not an exception to the law, as the specimens are not identical copies of the same thing.

(4) The law is true only when time is not allowed

to lapse. A second loaf is as useful as the first, if it is taken after the first one is eaten, digested and the man feels hungry.

(5) The first few doses may afford increasing satisfactions (e. g. the satisfaction from the second morsel of food may be greater than that from the first), but what the law states is that sooner or later it operates and can no longer be held in abeyance.

The law of diminishing utility may be diagrammatically represented thus :

Let the successive additions of a thing be denoted by ab , bc , cd , etc, they being, say, pounds of tea consumed

by a person every week, the rectangles on ab , bc , cd , etc. representing the satisfactions obtained from the different doses. The rectangles get lessened in height as we pass from left to right, i.e. as the consumption reaches ag , the utility of the last dose fg , is zero ; when consumption is ah , the satisfaction is negative, represented by the rectangle below gh , such rectangles rising in height as the doses increase.

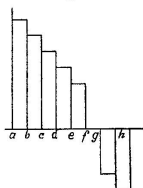


Fig. 1

The Figure 2 is a mere adaptation of Figure 1. If ab representing a pound of tea is split up into 16 equal portions, each subdivision standing for $\frac{1}{16}$ of a pound, the rectangles will be very narrow. The differences between the successive rectangles may be made as small as one pleased by taking each unit at its minimum. The curve then becomes a *continuous* curve DD' .

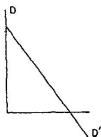


Fig. 2

Total and Marginal utility :—From the law of diminishing utility follow two concepts, total utility and marginal utility. By “total utility” is meant, the sum-total of satisfactions obtained from a given quantity of a good from the first to the last dose. Hence, total utility increases with every increment of a man’s stock, but it does not increase as fast as the stock increases. Thus, four pairs of shoes will give a greater total utility than two, but the utility is not doubled by the acquisition of the additional pairs. If the purchaser continues to add to his stock of shoes, each separate pair will be valued less than the former until a point is reached when he will buy no more pairs. The last increment he is just induced to buy is the marginal dose and the utility obtained from it is the marginal utility. It is obvious that the marginal utility of a thing (say, a pair of shoes) depends on the quantity at one’s

disposal. Hence the marginal utility of a quantity of anything diminishes with every increase in the amount a man already has.

Thus in Figure 1, if the existing stock is *ad*, the total utility is the sum-total of areas on *ab*, *bc*, *cd* and the marginal utility is the rectangle on *cd*; if, however, the stock is *ag* the marginal utility is zero. Supply increasing beyond *ag*, the marginal utility is negative. Marginal utility may be expressed in another way.

Relation between total and marginal utility.

The least important use to which a good is applied and the satisfaction obtained therefrom may be designated as the marginal (or final) utility. It is called 'marginal', because a man is on the margin of doubt as to whether it is worth his while to buy that good or not (or to acquire it, even if no price is to be paid for it).

Relation between marginal utility and price :—Utility of a good or service can be measured by the amount of money a person is ready to pay to procure it. Satisfaction, of course, is subjective, but its objective test is the willingness to pay. Hence, the price offered is the economic measure of the utility of a good. If an individual, therefore, buys each instalment of a good separately, without thought of more of it forthcoming, he is likely to proceed thus : for the first dose, say, the first pair of shoes he will pay Rs. 5/- rather than be deprived of it ;

for the second pair he will pay Rs. 3/- (as it yields him less satisfaction)
 for the third pair he will pay Rs. 2/- (as the satisfaction is still less)
 for the fourth pair he will pay Rs. 1/8 (the marginal satisfaction)

The total utility of the four pairs will be indicated by a sum of Rs. 11/8.

But the pairs of shoes are all alike and to a man possessing four pairs at a time, each has the same economic importance. If he were to part with one pair, it is immaterial which particular pair is referred to. The price at which the marginal dose will be bought is the price at which any other pair would be bought. For no one will pay more for anything than is represented by its marginal utility. Hence, if the price of a pair of shoes is Rs. 1/8 and the marginal utility of the fourth pair is Rs. 1/8, then four pairs will be purchased at Rs. 1/8 for each pair. Hence, it is said that the marginal utility is the index of the price of an article.

Two important conclusions must never be forgotten :

(1) The actual price paid for four pairs of shoes is $4 \times \text{Rs. } 1/8 = \text{Rs. } 6/-$. But the total satisfaction is represented by a sum of Rs. 11/8. Hence, a surplus of satisfaction of Rs. 5/8 (that is, $\text{Rs. } 11/8 - 6/-$) accrues to a buyer of 4 pairs of shoes.

(2) Many a paradox in human life (e.g. "Iron is more useful than diamonds, yet diamonds are incontrovertibly more valuable") is explained by the fact that the total utility is inestimable, but because the marginal utility is low on account of large quantities being available, the price is negligible.

CHAPTER 3.

Consumption (Continued).

Contents :—Consumer's Surplus. Engel's law of consumption. Luxury. Law of Demand. Elasticity of Demand. Law of Substitution or Equi-marginal return. Present *versus* Future wants.

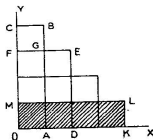
Consumer's Surplus :—The concept of Consumer's Surplus is derived from the conceptions of total utility and marginal utility. It is the difference between the sum which measures the total utility and the sum which measures the total exchange value. In the illustration given above, the purchaser of four pairs of shoes would have paid Rs. 5/- for the first pair (rather than be deprived of it), but the price actually paid is Rs. 1/8/-. He thus has a surplus of satisfaction worth Rs. 3/8/-. The prices that would have been paid and the prices actually paid for the four pairs may be thus indicated :

| | Potential price i. e. the price that would have been paid. | Price actually paid. | Consumer's Surplus. |
|-----------------------|--|-------------------------|------------------------|
| For the first pair | 5/- | 1/8 | 3/8 |
| For the second pair | 3/- | 1/8 | 1/8 |
| For the third pair | 2/- | 1/8 | 1/8 |
| For the fourth pair | 1/8 | 1/8 | — |
| For the entire supply | 11/8 | 6/- | 5/8 |

Hence, the man gets a Consumer's Surplus of $5/8$ on his purchases.

It thus happens that a price which a man ordinarily pays seldom reaches the maximum which he might have paid rather than go without it. This is specially true of goods whose current prices are low, such as cheap medicine, newspaper, postcard, salt etc. As a buyer of any such a good a surplus satisfaction is obtained. And "the excess of the price which he would be willing to pay rather than go without the thing, over that which he actually does pay, is the economic measure of this surplus satisfaction". In other words, consumer's surplus is the excess of the price which the consumer would be willing to pay for a thing rather than go without it over that which he actually does pay. A rich man buying potato and paying the same price as his servant does, obtains a consumer's surplus. He secures a consumer's surplus in respect of practically all goods that he purchases.

Diagrammatic representation of consumer's surplus.



To revert to the example of shoes: When one pair of shoes is available, the buyer pays Rs. 5/- for it rather than go without it. The parallelogram OABC represents its total utility as well as the total price to him. When two pairs are bought at Rs. 3/- each, the total utility is measured by the two parallelograms OABC and ADEG, but the total price paid is represented by the rectangle ODEF and so on. In the market he pays Rs. 1/8/- per pair for the four pairs. Hence, the total utility is the sumtotal of rectangles OABC, ADEG etc., but the total price paid is represented by the shaded area OKLM. The consumer's surplus for each pair is thus the difference between each parallelogram and its shaded portion. And this difference, diminishing in each successive parallelogram, shades into zero in the fourth parallelogram. The consumer's surplus, in respect of the purchase of the four pairs of shoes is represented by the sum-total of the white areas of the rectangles.

The limitations of the doctrine of consumer's surplus are :—

**Limitations
and quali-
fications
of the
doctrine
of consu-
mer's
surplus.**

(i) Different persons have different incomes and the marginal utility of money is less for the rich than for the poor and hence payment of the same price by all persons will not mean that the article has the same utility for all.

(ii) Consumer's surplus is unsubstantial for

articles which command a prestige value, e.g. diamonds.

- (iii) It is also inapplicable with regard to the strict necessities of life.
- (iv) The concept is said to be imaginary, unreal and hypothetical. The price actually paid is a fact, but the price that would have been paid for a thing, rather than go without it, is not capable of measurement. Prices do move, but ordinarily they move in the neighbourhood.

Engel's Law of Consumption :

A careful study of the statistics of consumption reveals that there is a relative order of expenditure of money for different persons. Various investigations have been made to learn how consumers actually apportion their expenditures in the satisfaction of their different wants.

Dr. Engel, the Prussian statistician, after making extensive investigations, laid down the following propositions :—

Law of variation. (1) The larger the income of the family, the smaller is the percentage of it expended for food.

Law of constant percentage. (2) The percentage of expenditure for clothing is more or less the same for large as for small incomes.

(3) The percentage spent for rent and

for fuel and light is approximately the same, whatever the income.

Law of variation. (4) The larger the income, the larger is the percentage spent on education, health, recreation, amusement and so on.

The importance of Engel's law lies in the evils of certain taxes which press unduly on those items of expenditure which must be maintained as necessities for life and efficiency.

Classification of Expenditures :

Expenditures are divided into expenditures for necessities, comforts and luxuries. Necessaries include all things that are essential to efficient production, not merely things which are needed to keep body and soul together, but things which contribute to efficiency. As regards the latter, these of course vary with different persons and different occupations and at different times and places.

The line of demarcation between comforts and luxuries is rather difficult to draw. Comforts may be defined as things that are not necessities, but which under the pressure of public opinion or through the force of habit has come to be regarded as necessities. These are otherwise known as 'conventional necessities'.

Luxury :—Luxury may be defined as those things which do not rank either with the category of necessities or of comforts. Luxury is the name of something vague

which a society views with mingled feelings of tolerance and condemnation. In distinguishing between necessities and luxuries, an ingenious writer has placed in the list of the former those goods the result of an increased price of which leads to the curtailment of consumption of goods belonging to the list of the latter.

Many things in themselves innocent and desirable (such as silk clothing) and which appeal to taste are regarded as unjustifiable consumption because they are luxuries. Luxury, however, is a relative term. The consumption of the same article is condemnable in one person, justified in another and the luxuries of one may be commonplace articles of another. Also, there is always a shifting of goods from the list of necessities into that of comforts and luxuries. The real connotation of luxury thus is not in the character of certain articles, but of certain articles in their relation to time and person. The simplest way to define luxury is to say that luxury is excessive consumption. But how to judge whether or no consumption is excessive?

Luxuries of all kinds cannot be justified. Wasteful consumption causes the misdirection of the activities of the working men. It causes a reduction in the amount of necessities and comforts.

Expenditures on luxuries are often justified on the

ground that such luxuries are beneficial to the poor who otherwise would be idle. This "make work" argument is persistently maintained and, therefore, deserves a moment's consideration. For example, when extravagant sums are spent on a showy dinner, the expenditure is justified by the argument that wealth is not wasted, but goes to the benefit of a large number of men employed,—the waiters, florists, butchers, bakers, grocers, drapers, jewellers etc. who, but for this dinner, would be without employment. The real point which is generally missed in such an argument is that there are many ways in which the money might have been more usefully spent. If workers are employed in producing orchids, lesser number of people would be available for growing potatoes or wheat. If a large number of people would be employed as footmen and embroidery workers, motor car cleaners and makers of mosaic floors of palatial buildings, will these not cause a dearth of men for producing food-stuffs, clothing and places of shelter? A position may be easily conceived when the majority of the working men lived in abject poverty while a few rich men were surfeited with luxuries. Rather than spend enormous sums of money at all, it were better if these were allowed to accumulate in a bank. The bank might furnish employment to just as many, possibly more, persons and in more useful ways. At the instance of an entrepreneur, the money borrowed from a bank, might create an occasion for production not of

extravagantly expensive food for a few rich men, but simple food for a large number. Another matter for consideration is that instead of the rich persons getting indigestion through over-indulgence in rich food, many persons would get wholesome food. It raises a genuine doubt in our mind when we consider whether the millionaire's palace, which might build a thousand good homes for men in humble stations of life, has any justification at all to exist. A rich man may take a fancy to amuse himself by setting a house on fire. The small amount of gratification has cost a very large expenditure and is out of all proportion to real economic consumption. The owner of the house would certainly outrage the sense of moral obligation were he to indulge in a wanton act of burning it down.

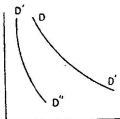
Law of Demand :—Demand in the economic sense, means not simply desire but desire accompanied by the ability to pay for a thing in question. Thus demand is effective desire. The Law of Demand is closely connected with the law of diminishing utility. It states that with a fall in the price of a thing, the amount demanded increases and that with a rise in price, the amount demanded decreases. The demand thus varies inversely with the price.

Elasticity of Demand :

By 'elasticity of demand' is meant the extent to which the amounts demanded vary with changes in price.

The demand is elastic if the amount demanded decreases much as the price is raised. On the other hand, the demand is inelastic if a considerable increase or decrease in price is accompanied by no appreciable fall or increase in the amount demanded.

In this figure, the demand curve DD' has a slow descent, thus indicating that every fall in price registers some rise in the amount demanded. Hence, the curve shows that demand is *elastic*. The curve $D'D''$ has rather a sharp descent, thus indicating inelasticity of demand.



The difference between elasticity and inelasticity of demand is one of degree only. The dividing line between the two is to refer to the elasticity of demand as a unity. Compared to this, the elasticity is either greater than unity (when demand is elastic) or less than unity (when demand is inelastic).

Elasticity of demand is a unity so long as the amount demanded at a price multiplied by the price (i. e. the aggregate sum paid) remains constant.

Elasticity of demand is greater than unity when the aggregate sum paid at each transaction is greater than the preceding (on account of purchase of increasing quantities at declining prices).

Conversely, elasticity is less than unity when the

quantity purchased (although it increases with fall in price) increases so slightly that the aggregate sum paid at each transaction is less than the preceding stage.

Illustrations :

| Amount demanded | | | Price offered | | Aggregate sum paid (multiplying the figures of the two columns) | |
|-----------------|---|-----|---------------|-----|---|---|
| | | | Re. | Re. | | |
| A | 1 | ... | 1/- | ... | 1/- | } Elasticity of demand is a unity. |
| | 2 | ... | -1/8/ | ... | 1/- | |
| | 4 | ... | -1/4/ | ... | 1/- | |
| | 8 | ... | -1/2/ | ... | 1/- | |
| B | 1 | ... | 1/- | ... | 1/- | } Elasticity of demand is greater than a unity. |
| | 2 | ... | -1/10/ | ... | 1/4 | |
| | 3 | ... | -1/8/ | ... | 1/8 | |
| C | 1 | ... | 1/- | ... | 1/- | } Elasticity of demand is less than a unity. |
| | 2 | ... | -1/7/ | ... | -1/14/ | |
| | 3 | ... | -1/4/ | ... | -1/12/ | |

Professor Ely has noted the following general characteristics concerning elasticity of demand:—

General propositions concerning Elasticity of Demand.

(1) Demand for necessities of life is rather inelastic, that for luxuries elastic.

(2) The demand for goods to the use of which we are habituated is less elastic than the demand for goods the use of which is a matter of conscious decision.

(3) If a thing has many substitutes (e.g. tea, coffee and cocoa) the demand for it is elastic.

(4) The demand of a person of large income is not as elastic as the demand of a person of small income.

(5) Hence, the demand of a rich country is less elastic than the demand of a poor country.

To this we may add a few more peculiarities :

(6) In case of joint demand (when the use of one article is dependent upon the use of another, as slate and pencil) the demand for any one is less elastic than in case of demand for single goods.

(7) In case of composite demand (i. e. when one thing may be used for several different purposes, such as, iron) the demand is more elastic than would be the case if the good were used for only one of the several purposes.

Law of Substitution in Consumption or Equimarginal Returns :—

If a particular demand is satisfied by any one of two or more commodities such a demand is known as alternative demand (for instance, a journey by rail, steamer or motor). Then an increase in the price of one commodity (say, railway) causes an appreciable falling off in its demand and thus paves the way for the substitution of another commodity in its place (steamer or motor). The introduction of a less expensive to take the place of a more expensive good (or service) increases the demand of the former good and diminishes the demand for the latter good. People always substitute the cheaper

for the dearer good. This explains the progressive substitution of machinery for human labour.

Any resident of Calcutta must have noticed that hackney carriages (palanquins in particular) are becoming rare phenomena because of the inroads of motor busses and tram-cars.

From the above is formulated the law of Equi-marginal Return. - In spending money every one tries to secure equimarginal utility from the goods bought. And when expenditures over many items are thus distributed, the maximum satisfaction is obtained.

Satisfaction of present versus future wants :

A labourer with a daily income of Re. 1/- and a daily expenditure approximating Re. 1/- may not think of tomorrow's needs. In that case, he will spend the whole rupee without saving a portion of it. Even if he thinks of tomorrow, he might expect that tomorrow will give him a rupee and so he resorts to no saving. Or, he may be fully conscious of tomorrow's needs, and doubtful whether tomorrow will procure him a rupee (as he may not secure any job), but the temptation of spending the rupee of to-day in to-day's gratification is so strong that he is not stronger enough to postpone some present gratification for tomorrow. And herein lies the difference between man and man. There are men so constituted that they feel the necessity of providing something for the future, i. e. against a rainy day and therefore abstain from present consumption of some

wants. They are cool, cautious and calculating and do not succumb to the present temptations. They are savers as saving is the outcome of foreseeing future wants and making an endeavour to provide for their satisfaction. And every rational man ought to balance between present and future satisfactions and strike a mean between spending and saving. The old story of a man living under a leaking roof which he could not repair during the monsoon period and leaving it unrepaired in fair weather when it needed no repairing, has a lesson of its own.

Generally speaking, however, future wants are appraised differently by different people. The estimate of food for to-day is realised by the prospect of hunger; that for the morrow by an anxiety lest one may be hungry for want of food. There is some uncertainty attaching to the future and some people are doubtful if they will at all live up to old age.

Waste in Consumption :

Success in life depends upon earning money and defraying it in a judicious way. One economist has said that to earn money is easier than to spend it judiciously. People are generally extravagant and wasteful in the matter of consumption. Wastage in consumption takes place either through carelessness or because of absence of adequate knowledge. No body need to stint himself in the kitchen, but every one must exercise economy in order that he may have a large

consumption. Waste of food takes place in diverse ways. Food is sometimes needlessly costly, but of no high nutritive value (e.g. 'polao' and other dainty dishes), inability to secure the best type of food suited to the requirement of a family, bad preparation of food (pressing out the starchy watery portion from boiled rice) etc. Fireplaces in our country are constructed in such a way that much fire escapes and so there is loss of coal or fuel. The crying need, specially for a poor country like India, is to bestow greater care in the matter of consumption and bring the wastage in consumption to the minimum.

CHAPTER 4.

Production.

Contents :—Meaning of Production. Stages of development of economic activities.

Production of wealth—

Factors of production—Land, Labour, Capital and Organisation.

Meaning of production:—‘Production of wealth’ does not mean its creation, as finite man is incapable of creating matter. Production rather means creation of utilities and what man can do is to change matter so as to make it serviceable to mankind. All creation of utilities, however, is not production of wealth. Thus the creation of utilities in free goods is no production of wealth. Wealth is produced only when creation of utilities in economic goods takes place. Production, in the correct sense, is therefore not the creation of all utilities, but only those which embody value-in-exchange. Professor Nicholson has accordingly suggested the use of the term “economic utilities” and has defined production “as the production of economic utilities; those, namely, which in general are the result of labour, possess exchange value, and are appropriated”.

Kinds of Production

There are four different ways of producing economic utilities, namely,—

(1) Creation of form utility which consists in changing the form, shape, weight, colour or any other quality of an article so that its capacity to satisfy wants is increased. Some writers speak of this as material utility. The conversion of water into ice is an instance.

(2) Creation of place utility which also enhances utility by a change of place. A thing in one place is more valuable than in another, e.g., rice transported from the rice-growing fields to the cities.

(3) Creation of time utility which also augments the utility by a change in time. Thus the withholding of a thing until it can be most useful (e.g. winter clothing stored in summer) is the imparting of time-utility.

(4) Creation of possession-utility which also enhances the utility by a change of ownership. Thus the selling of fruits by the dealer to the consumer is a creation of possession utility.

Factors of Production :

The two original or primary factors of production are man and nature and there is a close co-operation

between the human and natural elements for creation of utilities and gratification of wants. Sometimes man acts upon nature as, for instance, by the construction of canals and thereby providing for transportation facilities.

Or, nature acts upon man as, for instance, by accustoming the early settlers in a new country to climatic

Two original factors—Man and Nature.

conditions. And finally, there is collaboration between man and nature as, for instance, in agricultural operations when the productive forces of the soil and human labour transform a land, hitherto lying fallow, into food-growing area.

But, in text-books of Economics, a place has been given to four factors of production, namely, **Four factors.** land, labour, capital and organisation (their respective shares in distribution are rent, wages, interest and profits).

Stages of development in economic activities :—As man has played a great part in the production of wealth and his efforts to secure a living go back to the remotest past, the knowledge of the economic activities of our ancestors is based, more or less, on speculation. Economic history has traced the stages of development of these efforts of men. These had a rudimentary beginning until, by a process of evolution, the present day industrial and commercial organisations have come into existence.

First stage—Hunting and Fishing stage :

Primitive man's want for food and clothing was satisfied by hunting and fishing. With a successful day's hunting he gorged himself, but feasts and fasts alternated as everyday was not an auspicious day for the hunter or the fisherman. People lived a nomadic life as the sources of local food supply were exhaustible. Strangers were not admitted, but there was a feeling of

solidarity among members of a tribe. The density of population was low because nature's bounty is exhaustible and because of consequent severity of struggle for existence.

Second stage—Pastoral stage :—In this stage of economic existence, life is more peaceful and less roving. Man is in a position to provide for present and future wants. Animals are domesticated and they provide with a steady supply of milk and meat. The occasion for moving from one place to another was necessitated by the difficulty of pasturage. Private property in herds and flocks steps in, but none in land. On the whole, man is less dependent upon nature's uncertain bounties. England was at this stage at the time of Caesar's invasion of England.

Third stage—Agricultural :—In this stage, man has a settled instead of a nomadic existence. Crops are grown and both man and breeding animals subsist on agriculture. Slavery appears and captives of war, instead of being killed, are put to work in the fields. Men may do some roving and hunting and fishing work in periods of slack agricultural season or when women and the slaves do the agricultural work. Man now learns to work and to save. The idea of private property in land now takes its birth. The foundation stone of modern civilisation was laid at this stage. Finally, relations are established with neighbours and benefits of associated life are realised.

Fourth stage—Age of small tools or handicrafts :—Some men now produce useful things for the use of their fellow beings. This stage is the handicraft stage as the workman or craftsman does everything by hand. By specialisation some craftsmen become more efficient than others and so they get a good return for their labour. Hence exchange of one form of wealth for another develops. Barter is also superseded by money economy, though the money material may have been of the crudest type.

Fifth stage—Factory system (Present stage):—The employers provide the labourers with capital and raw materials and control the process of production. The workers cannot afford to buy costly machines and house them in costly buildings and hence they are forced to move towards factories for employment. They thus lose their position as independent home workers. They now cease to be their own masters, as in the handicraft stage. Factories assume enormous importance, large scale productions are carried on, elaborate division of labour and specialised machines are employed, competition becomes keen, cities grow and factories crowd round them and the machinery of credit is employed in perfection. All those processes, so markedly a contrast with their predecessors, have brought about a revolutionary change and are accordingly characterised as the Industrial Revolution.

CHAPTER 5

PRODUCTION (Contd.)—LAND.

Land—a factor of Production.

Contents :—Land, its meaning. Extensive and intensive cultivation. Small scale and Large scale farming. The Law of Diminishing Return. Its relation to urban site. Forestry and mining and manufacturing industries.

Meaning of land.

Marshall defines 'land' thus :—

“By land is meant the material and the forces which Nature gives freely for man's aid, in land and water, in air and light and heat.” Thus land includes land in the strict physical sense, also water, the atmosphere surrounding the earth as well as the various minerals that are found underneath the soil. In addition to these natural resources, land also includes the forces of nature ; for instance, power that lies in a natural waterfall or natural lightning, the sun's heat which enables the vegetable products to grow, the winds which enable men to propel machinery and sailing vessels and so on.

Thus, nature with her resources exerts a permanent influence in shaping a nation's economic destiny.

Its importance. Those nations that are in the van of progress have been richly endowed with natural resources, in some form or other. The productive

capacities of England, one of the richest countries in the world, owe, not a little, to her coal and iron mines, her insular position, natural harbours, navigable rivers, environment and her rich soils,

Land helps man in production in a variety of ways. Crops are grown in agricultural land. The cattle feed on land called grazing land. Timber and various other products are obtained from forest land. Minerals are extracted from mining land. Roadways and oceans act as nature's highways of commerce. Land gives us standing room for space, location or support.

Various services of land.

The cultivation of land, called farming, is either of two types—Extensive and Intensive. When cultivation is spread over a large acreage, some land being operated on and some being allowed to lie fallow, so that cultivation of both is carried on by rotation, it is called extensive. In new countries with plenty of fertile land, the early settlers cultivated land on the principle of extensive cultivation.

Cultivation—Extensive or

Under intensive cultivation, the area of land at the disposal of each cultivator is strictly limited. In old countries with a high density of population, where all land has been taken up, every inch of land has to be scientifically cultivated and there is no likelihood of land being used with prodigality. The same plot has to be cropped year in and year out and hence manuring has to be applied for conserving

Intensive.

its resources. The whole energies of the intensive cultivator are applied to make each plot yield the maximum quantity, at the same time keep its productive capacity intact.

Small-scale and Large-scale farming.—In agriculture, as in the domain of manufacture, the cultivation may be carried on by the tenant-farmer or the owner-farmer being assisted in his operations by the members of his family. Evidently, his resources do not permit him to undertake capitalistic improvements and specialised machines. This kind of farming is called small-scale farming.

Under large-scale farming, the organisation is large employing, as it does, a large number of cultivators and utilising up-to-date machinery and implements. Thus the produce is large. Generally speaking, intensive cultivation is small scale farming and extensive cultivation large scale farming.

Small scale farming presents the following advantages :—

- (1) It is specially adopted for the growing of crops which require personal attention and minutest care, e. g., fruit-growing, gardening, farming etc.
- (2) It gives a large produce per unit of land and so it can support a dense population.
- (3) A personal relation exists between the

**Advantages
of Small
scale farm-
ing.**

employer and employees and many labour problems which large scale operations generate are avoided.

The disadvantages of small scale system may be thus enumerated :—

(1) The opportunities for employment of agricultural machinery and implements and division of labour being naturally restricted, the return per acre is rather low.

(2) A large farm can produce more cheaply than a number of small farms ;

(3) The cost of transporting the produce is also relatively high.

The Law Of Diminishing Return.—The cropping of land removes certain valuable constituents which are restored by allowing it to remain fallow or by the applying of manures. The earliest cultivators, accordingly, migrated from one plot of land to another. A modern cultivator is not a migratory farmer and has, therefore, to face an inconvenient situation. He realises that no amount of manuring and careful tillage will enable him to prevent the law of diminishing return from happening. In an undeveloped land he may profitably apply additional doses of labour and capital ; but, sooner or later, he will find that any extra crop obtained by employment of an extra dose of labour and capital will not cover his expenses. This is the Law of Diminishing Return. It applies in every branch of

industry ; but for the present let us see how it makes itself felt in agriculture.

Professor Marshall's statement of the law is as follows :

“An increase in the capital and labour applied in the cultivation of land causes *in general* a less than proportionate increase in the amount of produce raised, unless it happens to coincide with an improvement in the arts of agriculture.”

**Statement
of the Law**

“In other words, it may be taken as being generally true, that after a certain stage in cultivation has been reached, the soil fails to respond to the efforts of man, and yields a proportionately decreasing return to new applications of labour and capital, unless new methods of agriculture, new machineries or new fertilisers are utilised to counteract the tendency of the soil to exhaust its properties”—(Thomas).

The law of diminishing return applies both to intensive and extensive systems of cultivation. If units of labour and capital are applied in the *same plot of land*, one after another, each unit may produce, up to a certain time, a proportionately increasing yield. And a time is reached when a productive unit will produce the greatest amount of produce. If further units are employed, the total product increases, but the product per unit of labour and capital diminishes. Hence, other things being equal, continuous units of

labour and capital, applied on a plot of land, will, after a certain stage is reached, give less than a proportionate return. But "other things" may not remain the same. For instance, if the soil is enriched by adoption of better manure, rotation of crops, if better agricultural machinery is introduced, successive doses may result in a more than a proportionate return. And so long these improvements happen, the law of diminishing return may be held in check. But in a static condition of things, the law cannot be indefinitely held in abeyance. Its operation, therefore, becomes irresistible. This is an application from any one plot of land under intensive cultivation. The proposition that the returns diminish refers to the quantity of the produce raised and not to its value, corn diminishing in maunds, not necessarily in money.

But it is a matter of indifference whether additional doses of labour and capital are applied to the rich land under poorer and poorer conditions, or to poorer and poorer soils. In the former case the cultivation, as already stated, is intensive; in the latter case, extensive.

Lands differ in fertility and the same application of labour and capital in each case may be accompanied by decreasing yields. Take an illustration: suppose there are three plots of land of different grades of productiveness. A unit of labour and capital in the first soil gives 25 maunds of corn, in the second soil

20 maunds and in the third soil 15 maunds. It may also be supposed that the three applications of labour and capital were made on the same land yielding successively diminishing returns of 25, 20 and 15 maunds. The return of 15 maunds is called the marginal return and in either case there is a margin of cultivation. The margin is said to be extensive when poorer and poorer lands are resorted to, so that the land cultivated last barely pays for its expenses, but no rent; it is said to be intensive when more capital and labour are applied under less favourable conditions to the superior land, i.e. beyond the point of diminishing return just up to the point when the last dose of labour and capital pays for the product raised. Thus the law may apply either to the same doses of labour and capital applied to successive tracts of land or to the same doses of labour and capital applied to the same area of land. In the first case the variable factor is land and units of labour and capital remain constant. In the second case land remains constant and a decreasing return is the result of increase of two factors, labour and capital.

This law applies not only to agricultural lands, but to other kinds of land as well. Take urban land; a plot of land in the heart of the city of Calcutta on which, by investing labour and capital, a building may be erected and thereby a return obtained. If an unambitious hut is raised the income is

**Does the
Law of
Diminish-
ing Return
affect agri-
culture
alone ?**

meagre, out of all proportion to the value of land. Erect a one-storied house, by applications of more doses of labour and capital, and the return from this results in an additional income. A two-storied, even three-storied, house will still give increasing returns from investment of labour and capital. If the law of diminishing return did not operate, the expenditure could have been indefinitely increased and an increasing income in proportion to the increasing investment of labour and capital obtained. But a time comes when the owner of the land must cry halt and no more units of labour and capital will be employed upon the given plot of land.

**Its appli-
cation to
Urban Site.**

The law applies sharply in extractive industries, i.e. agriculture, mining and forestry where differences in cost are permanent. Some forests are better than others just as some agricultural lands are good, others less good. Advantages in location and proximity to market also count. So also in mines which differ from one another in respect of intrinsic worth and accessibility. The law of diminishing return applies to mines in a double sense. Additional doses of labour and capital applied to a mine cause a less than a proportionate return (when the mine is being worked deeper and deeper). But a mine exists as nature's fixed reservoir and when the whole of the mineral is taken out, there is no more of it left and the mine becomes a hollow pit.

**Forestry
and Mining**

The principle of diminishing return is applicable in the manufacturing industries in a less degree. The law is more evident in the extractive industries, because nature plays the chief part and the influence of nature is paramount. In the manufacturing industries, man's contribution is superior to nature's, and man by his increasing knowledge, inventive genius and organising capacities, avoids diminishing return and obtains increasing returns. But we must not forget that here there is a delaying in the application of the law and no permanent getting rid of it.

Manufacturing industries

The notable feature of land is its fertility. Lands differ in productiveness or fertility and the differences rest, as Ricardo said, on the "original and indestructible properties of the soil." The conformation of the land is a factor in determining its productiveness. Thus a steep hill-side compares unfavourably to a fertile plain. Climate though, in strictness, not a property of the soil, is vitally connected with it and upon climate rests vitally its productiveness. Hence fertility, conformation and climate make for productiveness of land.

Influences affecting the productivity of land

Another factor is location. Proximity to or remoteness from the market, navigable river etc. turns to be a distinct advantage or disadvantage. It is true, location of land does not affect the amount of physical

product, but it does affect the price of it and the cost of transporting agricultural products is no negligible item. The human factor in improving the character of land must be emphasised. For it is up to man to improve the soil by adoption of mechanical and chemical devices. The former "enable the soil to hold plant roots gently but firmly, and to enable the air and water to move about freely in it." Chemically, the soil must be provided with inorganic elements which the plants require and by introduction of chemical ingredients barren soils may be converted into fine arable areas.

CHAPTER 6.

Production (contd.)

Contents :—Labour, its meaning. Productive and Unproductive labour. Malthus' Theory of Population. Efficiency of labour. Division of labour. Its advantages and disadvantages. Machinery. Its advantages and disadvantages.

Labour :

Land is a factor external to man, but labour is inseparable from man and hence labour and labourer are convertible terms. The importance of labour, as a factor of production, is paramount. Even where nature showers her choicest bounties, under most favourable climatic conditions, man profits little unless he exerts himself. The teaching of economic history is that man will have to work and get a living by the sweat of his brow.

What is labour?—All human exertion applied in the production of wealth is labour. It may be an exertion of the body, or mind, or both, but it must have an objective, the production of wealth. Hence, all exertion undertaken for the sake of mere pleasure (e.g. one who ascends a mountain as a sight-seer) is excluded. But the exertion of the mountain-guide is economic labour as it is undertaken not for pleasure, but for a reward.

Economic labour is continuous, monotonous and

displeasurable. All labour, however, is not equally irksome. The work of a teacher is far less so than that of a manual labourer. Even there are teachers who find a pleasure in imparting knowledge. This is true of the most kind of intellectual labour and such labour may be regarded as an exception, as the greater part of the world's labour is not at all pleasurable. As mankind progresses in civilisation, expedients are adopted for some mitigation of irksomeness of manual labour. Thus shortening of hours of labour (eight hour day is a universal cry), providing for recreation and other welfare arrangements and the growing consciousness of dignity of labour are calculated to lessen the monotony and displeasurableness of labour.

Attributes of labour.

Productive and unproductive labour :—There may be two kinds of labour. Either labour helps in the production of a visible, tangible or material commodity (e. g. a chair), or it may involve the rendering of a service (e. g. a doctor's service). There was a time when the economist regarded the former kind of labour alone as productive ; the latter kind of labour, though useful, was looked upon as unproductive. This opinion was advocated by economists like Adam Smith and J. S. Mill. and the view that such labour as turned out material things alone was productive, was persistently maintained for a long time. Various inconsistencies followed from such a distinction. Thus the maker of a harmonium was productive, but the musician who

played on it was unproductive. The soldiers were unproductive, but not the producers of guns and gun powder.

The distinction between things useful and useless is by no means the same as the distinction between material and non-material or agricultural and non-agricultural labour. In fine, the test of productiveness of labour is the creation of utilities, as labour creates utilities only and not matter.

Modern economists regard various kinds of labour as productive. Men engaged in transportation services, members of the army and navy, the inventors, domestic servants, judges, politicians, agriculturists, manufacturers and commercial agents are all productive members.

Another group of economists, Physiocrats by name, also took a one-sided view of productive labour. According to them, labour employed in extractive industries (agriculture, mining and fishery) alone is productive. They understood by production creation of raw material, and not wealth in its diverse forms.

The Socialists' view of productive labour is also one-sided as, according to them, labour alone is productive, neither capital nor land (these are mere material means of production, but are not themselves productive).

Who then are unproductive labourers? Evidently they are those who, instead of producing works of utility, destroy such works. Such are the thieves, swindlers and those who

**Productive
labour**

**Unproduc-
tive labour.**

wantonly destroy useful things like the aggressive soldiers let loose on a conquered country.

J. S. Mill has given a fourfold classification of labour which is as follows:—

Various kinds of Labour

(1) The liberal professions supplied by the sons of professional and leisured class,

e.g. lawyers.

(2) The more highly skilled manual employments filled by the sons of skilled artisans and tradesmen who rank with them, e.g. the watch-maker.

(3) The lower classes of skilled employments recruited from the sons of the artisans in the same grade, e.g. weavers.

(4) Unskilled labourers who remain from father to son in the same grade, e.g. field labourer.

Another classification.

Three kinds of labour are distinguished by some writers:—

1. Manual labour.
2. Mental labour.
3. Supervision.

Labour Supply:

Production of wealth is dependent upon labour. The supply of labour is again dependent upon the quantity and quality of labour. There should exist in every country a sufficient number of efficient men for purpose of production. The labour power and its productivity is compounded of the following factors:—

- (a) Numerical strength.

- (b) Efficiency of the individual labour.
- “(c) The organisation of labour supply.

Numerical strength :—Malthus' theory of population.

The English economist Malthus (1798) in his “Essay on the principle of Population” drew the attention of the world to the relation between population and means of subsistence. His reasoning is made up of three parts :—

The first part refers to the supply of labour. Population, in his opinion, if not checked, tends to increase in a geometrical progression (at the rate of 1, 2, 4, 8, 16, 32).

The second part of his reasoning relates to the demand for labour and “the produce which nature returns to the work of man is her effective demand for population”. And food-supply increases in an arithmetical progression (at the rate of 1, 2, 3, 4, 5, 6). Hence, an unchecked population will double itself in 25 years.

The third part relates to the conclusion which Malthus draws from supply and demand sides and it is that checks must be applied in order that a correspondence may be brought about between population and food supply. An increased population may be counteracted in two ways, by positive and preventive checks. Positive checks are those that cut down numbers already born (by starvation, disease, war, infanticide etc).

Preventive checks are those which prevent additional numbers from being brought into the world. "The first operate through a high death rate, the second through a low birth rate; in other words, the first through an excess of deaths, the second through a limitation of births".

Some of the criticisms brought against his theory may be summarised below :—

Criticism of the Malthusian theory. (1) Malthus underestimates the possibilities of increase in food supply and the accuracy of the arithmetical ratio of its increase has been disputed. Of course, there are definite limits to the increase of food-supply, but these are more elastic than Malthus supposed. The methods of cultivation have marvellously improved and the area of cultivation has been extended.

(2) Malthus' estimate of increase of population is also exaggerated. And two arguments have been put forward to show that the increase in a geometrical ratio is rather fancied :

- (a) The biological argument—the power of reproduction diminishes with advance of civilisation, but whether this diminution is natural or artificial is an open question. The fact, however, is that the higher classes have small families.
- (b) The socio-economic argument—the size of a family varies inversely with wealth. In

the poorest families early and improvident marriages lead to increased numbers. Every child born is regarded as a prospective breadwinner and so increase goes on unchecked. In rich families marriage is invariably delayed and there is a restriction of numbers as the idea is to have a few children and fully train them rather than have many and ill-train them.

(3) The second part of Malthus' reasoning has become rather obsolete. The vast developments of international trade and the opening up of ocean routes have made it possible for one country not to produce food, but any other kind of wealth in exchange of which food may be imported. The real antithesis to-day is not so much between population and food as between population and wealth (or efficient production.)

(4) Another writer has criticised Malthus because he has contrasted a purely hypothetical man with a purely hypothetical nature, as neither is man prolific in the matter of propagation, nor is nature taxed to her utmost in any country.

From all these considerations Prof. Seligman comes to the pertinent conclusion, "The problem of population as a whole is, then, not one of mere size, but of efficient production and equitable distribution. That is, it is a problem not of numbers alone but of wealth."

Efficiency of Labour :

There are many factors that contribute to the productiveness of labour and these concern the skill and ability of a labourer to perform works. The contributory factors may be enumerated as follows :

- (a) Physical strength :—in certain occupations muscular strength is the primary requisite in a labourer. The labourer should be physically strong and of muscular habits. And differences in this respect, as between different nations, are traceable to racial characteristics, variations in health, strength, intelligence and skill.
- (b) Influence of climate and physical conditions :—A temperate climate is more conducive to sustained labour than tropical heat which produces an enervating effect.
- (c) General intelligence :—intelligence considerably influences a labourer's efficiency. There are marked differences in intelligence between nation and nation, man and man, brother and brother. Intelligence is either a gift of nature or an acquired qualification. In the former case, heredity and in the latter case environment and education are determining factors. On the whole, differences in intelligence are due to natural gifts.
- (d) Education :—education fits a man to

perform his duties intelligently and conscientiously. It "leads to breadth and elasticity of mind." Technical and commercial education increases his efficiency, particularly in his own branch of employment.

- (e) The quality and quantity of necessities of life :—a labourer must be properly fed, clothed and sheltered if he is to be an efficient worker. A variety in food and other necessities develops productive power.
- (f) Influence of occupation and amount of remuneration :—health of a labourer depends upon the sanitary and housing conditions in the occupation, medical facilities etc. Health also depends on how wages are spent. A sober workman benefits more from his judicious expenditure than one given to habits of drink and gambling.
- (g) Numbers of hours of work :—long hours of sustained work are devitalising. Reduce the hours and you invariably add to a labourer's efficiency.
- (h) Moral and intellectual qualities :—these also increase the productiveness of labour. "Temperance, trustworthiness, skill, alertness, quick perception and a comprehensive mental grasp—all these and other qualities

belonging to the soul of man are of permanent importance."

- (i) Finally, the capacity of one individual worker to co-operate with others is of vital importance. Different laboures have to be assigned different tasks according to their capacities and there should be introduced an efficient division of labour among them.

How an efficient labourer benefits his employer. An efficient labourer earns more wages than one less efficient. But dear labour is cheap labour from the employer's standpoint, because:—

- (a) he works with instructions given to him and with discretion ;
- (b) he economises in the use of raw materials ;
- (c) he handles delicate machinery to advantage ;
- (d) he produces more things in a certain time and so the output increases, but not the cost proportionately ;
- (e) he is always alert for adopting improved methods.

Division of labour :

By 'division of labour' is meant the transferring of work, formerly done by one person, to different persons with the result that he performs a small part in the production of a single article and by an exchange of his service gets other things for satisfying his wants.

The different stages in the développement of division of labour may be stated as follows :—

Different kinds of division of labour. (1) Division into callings or trades. A man is a farmer, another a shoe-maker, another a house-builder and so on.

(2) An extended form of the first form is division into industries. The farmer at this stage works along with other farmers under a rich employer, but each farmer himself makes a finished article.

(3) Division into complete processes by subdivision of labour. Thus a pin, in its entirety, is no longer done by one man. To take the classic example of pin-making given by Adam Smith :

"One man draws out the wire ; another straightens it ; a third cuts it ; a fourth points it ; a fifth grinds it at the top for receiving the head ; to make the head requires two or three distinct operations" and so on.

(4) The division of labour into incomplete processes. With the advent of machinery the processes of production become indirect or roundabout and a simple task is split up into a series of subdivided tasks. An industry, say textile, has now several subdivisions like spinning, weaving etc.

(5) The geographical or territorial division of labour leading to localisation of industries. Localities which possess some peculiar advantages such as proximity to raw materials, water power, markets, climatic advantages,

cheap labour, credit facilities etc. favour the congregation of various industries.

Division of labour.—Division of labour can be analysed according as it is simple or complex. Under **Simple and Complex.** the simple form, a worker carries through the whole of one of the stages in production. Under the complex form, even in the same stage of production there has been a splitting up into several operations, for instance, when one man spins and another weaves. "From the point of view of the individual the division of labour means specialisation; from the point of view of society it means co-operation."

The advantages of the simple form of division of labour may be considered under the following heads:—

Advantages of division of labour. (1) There is a gain in skill or dexterity which comes from the constant practice of the same occupation (e. g., operating on a type-writer blindfold). Practice makes perfect. And men are dexterous because they have been long practised, not that they practise an art with inborn dexterity.

(2) There is a saving in time. The hand and the eye get so accustomed to the operations that they are done without conscious effort and much time is economised.

(3) Adaptation of tasks to the abilities of the workers, so that every one is called upon to do that for which he has the greatest aptitude (e. g., brain workers and manual workers).

(4) The period of apprenticeship is shortened and there is a gain in the quantity of wealth produced.

(5) It allows women, children and half-men to work and thus the entire productive force of a community is scientifically exploited. It is possible also to fit each man to his proper place.

(6) It leads to a specialisation on a territorial basis and thus a country secures products of different countries most advantageously produced, and at the same time it is enabled to concentrate its own energies in the most productive channel.

(7) The breaking of a productive process into simple operations and assigning each process to a separate worker means that the movements are standardised. And once the work is reduced to a routine, the way to the invention of machines is paved.

The dangers of division of labour are :—

**Defects of
division of
labour**

(1) One risk of specialisation is that it is narrowing. It tends to make an individual workman a machine rather than a man. He can take no direct personal pride in the product. All power of initiative is stifled.

(2) Socially speaking, it stands in the way of development of a country's well-balanced economic system.

(3) The territorial division of labour leads to specialised production the risk of which is clearly seen in case the industry fails or the foreign demand ceases.

(4) The evils of division of labour are the disadvantages of the use of machinery.

(5) The evils that follow from the factory system of production, e.g. over-crowding and slum-life, insanitary housing conditions and the moral degradation of the labouring population. One notorious result is the excessive inducement offered to young children to work before their productive capacities have been developed.

(6) There is also a decrease in general intelligence.

(7) It hinders mobility of labour, at least for some time, as the skill has only a limited field of employment and its value is lost outside that field.

Advantages of Machinery :

Use of machinery gives rise to the following beneficial consequences:—

(1) It can work faster than human limbs.

(2) By taking over works which formerly required considerable muscular strain, machinery has relieved the strain on human muscles.

(3) More accurate works and monotonous works are performed by machines. Machinery thus considerably softens the monotony of human life which is involved in the performance of monotonous works.

(4) The output is increased and the cost of production is lowered. A variety of goods is produced and there is a cheapening of prices.

(5) Use of machinery necessitates a development of general intelligence and once this takes place it is immaterial whether one works in a watch-making or gun-making industry. Hence, machinery weakens the barriers between different employments.

(6) The system of inter-changeable parts contributes to accuracy of production.

Disadvantages of the use of Machinery :

A few charges have been brought against machinery:—

(1) It produces a harmful effect upon the worker. Labour becomes simple, but it loses its attractiveness and educational value. "A working man becomes a mere cog in a great mechanism". But, to this charge, it may be replied that machinery performs the heaviest works, thus leaving to human beings the work which requires intelligence and skill.

(2) People also declaim against the factory life with its long hours, insanitary conditions, industrial accidents etc. But healthy factory legislations may be relied upon to put an end to these evils.

(3) It is said that machinery production is antagonistic to the development of art. But this charge is really unfounded as—

- (a) for the appreciation of art leisure is needed and machinery provides men with leisure,
- (b) the machinery does the preliminary works for the artist, but not the work in its entirety.

“Will a building be less artistic”, asks Ely, “because much of the heavy work of dressing the stone is done by machinery?”

(4) The most formidable charge brought against machinery is that it throws labour out of employment. A machine is a labour saving device and its employment causes labour to become superfluous and all of it is no longer wanted. The reply to this charge is that the unemployment is only temporary and not permanent. The dismissed labourers are, sooner or later, reabsorbed. This can be easily proved by the following arguments :—

- (a) Machinery produces things cheaper, the demand for the articles increases and more labourers are employed.
- (b) Labourers are needed for the making of the machines.
- (c) Consumers will have savings as buyers of goods at cheaper prices and the surplus income will create demand for hitherto unsatisfied wants. New industries are stimulated, necessitating employment of labour.
- (d) Some people would prefer to buy more leisure by working shorter hours, earning less, but securing satisfaction of all the former wants (as things now become cheaper). This creates a void in the labour supply to be filled by the-displaced workpeople.

- (e) Finally, some people will have more savings as they live in an era of machine-production and the increased savings will find their way in bank deposits. The banks will encourage loans and business people can turn the capital to good account when capital co-operates with labour.
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CHAPTER 7.

Production (contd.)—Capital.

Contents : Capital, its meaning. Different forms of capital. Factors favouring the supply of Capital. Land is not Capital. Capitalistic production is round-about production.

Its meaning :—Capital is used in more senses than one. By some it is identified with money which is lent and fetches interest. But other forms of wealth also bring interest and so another view is to regard as capital all loans of wealth. An extended connotation has been given to capital by reckoning as capital all forms of wealth, loaned or not, provided it gave an income to the owner.

The expression “acquisitive capital” denotes those forms of wealth which yield an income. Such capital is not necessarily productive capital “as interest is paid by the borrower for loan of capital which may not be applied to a productive purpose.”

Some economists define capital as consisting of those goods which have been already produced and which are used in the production of further wealth.

This kind of capital is called ‘productive capital,’ as distinguished from ‘acquisitive

capital', Productive capital is social capital as the society stands to gain from it. Acquisitive capital, though it brings a gain to the owner, may not benefit society. Thus houses let on hire by a landlord are his acquisitive capital, i.e. individual capital, but from the standpoint of the society they are consumption capital.

Unaided, man can get but little from nature and the instruments, tools, machines etc. that assist him

in the production of wealth are called
True nature of Capital. capital. Since capital is obtained from

man's labour applied to nature, capital is crystallised labour and land evidently is not capital. Land is a gift of nature, capital is man-made. The simplest agriculturist's tool and the most gigantic machines are the result of past human labour and form a part of wealth (other than land) which is used in the production of further wealth. And because capital is productive of further wealth, the owner gets an income when it is transferred by him to another, the producer of wealth. Hence, capital consists of those forms of wealth, other than land, which are expected to give an income to the owner. Capital and income are thus co-relative. A community's capital, therefore, consists of appliances of production, tools, buildings, machinery, raw materials, railways etc. The word 'capital' is reserved to denote those forms of wealth that aid in the production of further wealth. Wealth consists of directly consumable goods, i.e. goods that are objects of direct satisfaction. Hence, what

capital produces with man's aid (also with the aid of land) is wealth. The same article, of course, may be either capital or wealth according to the intentions of the owner. Thus a motor car, used as a pleasure drive, a house in which the owner resides, a piano which is played on by the owner, the entire household effects are not capital, but wealth. The moment they are let on hire and bring an income they become capital. The doctor's car is capital when it is used on a professional mission, but wealth when used, as a pleasure drive. Hence, all capital is wealth, but all wealth is not capital.

The concrete things such as machinery, buildings, raw materials etc. are capital goods. The money value of these (say, Rs. 10,000 which is distributed in these items) is referred to simply as capital.

Different forms of capital :—Capital is used in various ways ; it also shows a remarkable variety. The principal types of capital may be noticed as follows :—

(1) Individual and Social Capital. Individual capital is capital so regarded from the individual point of view. Capital produced and used by society is social capital.

(2) Fixed and Circulating Capital. The fixed capital lasts for a succession of operations and a part

of its value only passes over into the product with the use of it. The circulating capital is wholly used up in a single act of production. The difference is one of degree only. The oil used by the oil engine is circulating capital, but the engine is fixed capital.

(3) Trade and Consumption Capital. Under 'trade' capital are included tools, machines, factories, raw materials etc. which are used in the production of other articles. Trade capital is also known as 'auxiliary' capital or 'instrumental' capital. 'Consumption' capital includes things which directly satisfy wants, e.g., food, clothes, houses etc.

(4) Material and Personal Capital. 'Material' capital consists of concrete, tangible or material things which are capable of being transferred from one person to another, e.g., a house, a factory, a locomotive etc. 'Personal' capital includes those faculties, energies and habits which render a man efficient and constitute a source of income to the possessor—qualities which, however, cannot be transferred in themselves, for instance, a musician's capacity of singing.

(5) Capital is also regarded either as 'specialised' (or sunk) and 'unspecialised' (or floating). When capital is invested in a specific form and cannot be withdrawn to be invested in a different form, it is 'sunk' or 'specialised' capital, e.g. capital invested in an open railway line. It is 'floating' or 'unspecialised' when it

can be changed at pleasure from one form to another for employment, e.g., money.

How capital originates :

Capital originates in saving and saving implies a deferment, a postponement of present consumption for the future. In the primitive stage, capital was the direct result of saving on the part of the men. Thus a portion of the yield of the harvest was saved by the grower of corn and left unconsumed in order that it might constitute seed for the next year's harvest. To-day all forms of wealth are exchanged in money and surplus income is saved in money, perhaps, placed in a bank. The saver is rewarded with an income, called interest, the bank's borrower turns the savings to some productive enterprise.

Capital originates, therefore, in the saving of a surplus of production over consumption. Where this surplus is created by a deliberate stinting of present wants, capital is said to be result of abstinence (or a painful deferment). But where no personal sacrifice is involved (e.g. saving by a lawyer holding the topmost position in the bar), capital still originates in saving or 'waiting'. Waiting thus is a happier word than 'abstinence'.

Factors on which depend the supply of savings or capital :

The supply of savings depends upon two factors—
(a) the power to save and (b) the will to save,

(a) **Power to save** :—This power is furnished by a man possessing a surplus income (or surplus of production over consumption due either to efficient production or economical consumption or both). A surplus income implies an excess of income over expenditure. Thus the volume of savings of a country will depend on the number of men who possess a surplus income. And various factors contribute to increased production, namely climatic and geographical conditions, natural resources, efficiency of factors of production and business organisation.

(b) **Will to save** :—This is a psychological factor. All persons who have a surplus income are theoretically capable of saving, but they may not be actual savers. In saving is involved another condition and it is a deliberate or conscious effort and a strength of purpose. Present goods are more tempting than future goods. "A bird in hand is worth two in the bush". In order that a man may not succumb to the present gratification he must weigh between present and future pleasures and realise the necessity of providing for the "rainy day". All persons are not so constituted and only those who are cool, cautious and calculating are alone expected to provide for the future.

Motives and conditions that lead men to accumulate.

The growth of savings depends upon a variety of factors such as the following :—

(1) Family affection : People want to provide for their wives and children and

other relations whom they do not want to leave in a destitute condition after their death. This motive is a powerful incentive to savings.

(2) Social ambition : People sometimes are animated by a desire to hold a position of leadership.

(3) A spirit of emulation : This is a desire to excel others and outdo them in business.

(4) The rate of interest is a powerful regulator of saving. The general rule is that the greater the rate of interest, the greater the allurements and, therefore, the greater the volume of saving and *vice versa*. There is, however, an exception to this rule and it relates to those persons who try to save a sum sufficient to provide a permanent income when they retire or for an endowment of their wives and children.

(5) Patriotic considerations lead men to save in times of national crisis.

The whole position has been summed up by Marshall as follows : "The accumulation of wealth is governed by a great variety of causes : by custom, by habits of self-control and realising the future, and above all by the power of family affection. Security is a necessary condition for it, and the progress of knowledge and intelligence furthers it in many ways."

Land is not capital :—Land is not capital

and the fundamental differences between land and capital are as follows :—

- (a) Land is a free gift of nature, capital is "man-made."
- (b) The supply of land is rigidly fixed by nature, capital has an elasticity of supply.
- (c) Land possesses certain indestructible properties ; capital goods, however durable, sooner or later, go out of existence.
- (d) Rent, the income from land, can indefinitely rise if the demand for land rises (its supply being permanently fixed), but income from capital (i.e. interest) tends to gravitate towards a normal rate of return.

Capitalistic Production is round-about production :

Capital enables its possessor to adopt indirect or round-about methods of production and these are more efficient than simple, direct methods. In these round-about methods either man and natural forces co-operate or the natural resistance is made less stubborn. Capital is like the harness for guiding the natural powers. In the primitive stage, men had to walk on foot. But now journeys are undertaken in a railway. But this has been possible because of the opening up of iron and coal mines, exploitation of forestry and securing of timber and works of various kinds which

lead to the construction of railway lines, engines, rolling stock, bridges etc. This round-about or capitalistic method of production (i.e. when things are produced not for their own sakes, but to help in the production of other things to satisfy our wants) has rendered travel less expensive. Less time is taken in transit and large distances can be travelled over.

CHAPTER 8.

Production (Contd.)—Organisation.

Contents : Organisation, its meaning. Functions of an Entrepreneur. Faculties required in an ideal businessman. Various phases of business management. Single Entrepreneur System. Partnership. Joint-stock company or Corporation. Its advantages and disadvantages. Productive co-operation. Consumer's co-operation (in retail trade and credit). State (or Municipal) management of industries. Large scale and small scale productions. Laws of Diminishing, Increasing and Constant Returns.

Organisation or Enterprise or Business Management :—

Its Meaning :—Land, labour and capital are the three factors of production, but these must be brought together or co-ordinated in order that useful results may follow. This work of organisation thus consists in bringing about an alliance or co-ordination between land, labour and capital and the organiser is variously known as 'captain of industry,' employer, businessman, undertaker, enterpriser or 'entrepreneur'.

Organisation is a kind of labour, independent labour, i.e. labour not hired for a reward. Organisation is neither labour of management (as the business manager may be hired at a stipulated salary). The essence of organisation is management of business and the shouldering of risk attached to it. Organisers to-day

form a special class of persons who direct and organise business and it is under the stress of modern competition that this class of people with specialisation has come into prominence. Organisation has become very important in the modern world where the three factors exist separately and an agency is needed to bring them together. The organiser hires land, labour and capital and pays them their stipulated prices and what is left over is his profits. Whether profits will be high or low will depend upon the degree of success achieved by him.

Functions of an entrepreneur :

The functions of an entrepreneur are :—

(1) The organiser is a risk taker. A long time intervenes between the entry of the raw material into the factory and its emergence as a finished product. There is also some spell of time involved before the good is marketed. Production takes place in anticipation of demand ; there is no personal touch between the producer and the consuming public. All sorts of unforeseen events might happen and the appearance of supplies from rival sources and the changes of taste in consumption are formidable factors that might bring about an entire disorganisation. The enterpriser must have strong nerves to undertake all these risks and the most successful organiser is the most successful risk-taker. Much of the risk, however, in a joint-stock company is shifted on to the shareholders.

(2) In his second role, the organiser must have sound knowledge of business management. The managerial functions of the entrepreneur consist in,—

- (a) *determining the quantity and quality of goods he will put on market. The demand of the consumers and its nature have to be gauged first and then productive forces, applied ;*
- (b) *co-ordinating land, labour and capital in due proportions so that they may be harmoniously combined. Also, he will have to show that he is a man of promise or land, labour and capital will not flow to him ;*
- (c) *acting as a thorough organiser of production. There should neither be any misdirection nor an ill-advised combination between land, labour and capital. In fact, the combination must have to be most profitable. He will have to substitute land for labour or capital for labour whenever the one is cheaper than the other. The law of substitution has to be applied at every step. The skilled and unskilled labourers must be assigned duties according to their capacities. Machinery must be kept engaged with work and efficient men called upon to handle expensive machines ;*
- (d) *evincing skill in the disposal of the finished*

product. He may prefer to sell the product to foreign markets instead of the domestic market ; he may withhold the stock if he anticipatè a rise in price in future. He will have to popularise the goods by advertisements, appointing commercial travellers and so on ;

- (e) thinking of questions of policy, leaving the details to his employees. Hence, he must have a keen insight, must be able to judge men on their intrinsic worth and secure the services of the most efficient men. Once the choice is effected, he will put the proper men in proper places and trust them fully.

(3) He acts as a distributor of social incomes. He has to pay the labourers their stipulated wages, capitalists their predetermined interest and landlords a pre-arranged rent. After making these and other disbursements, if any surplus (i.e. over the selling price of the finished article) is left, it will be his own profit. Here is needed foresight, judgment, alertness and an executive capacity, as industrial disputes frequently happen and these have to be sympathetically dealt with.

Faculties required in an ideal businessman :

It must be recognised that the qualities required in an ideal businessman are not possessed by all engaged in production. It is, however, of the utmost importance

that the right sort of men occupy the position of business management or a good deal of national waste will take place. Failure to manage successfully renders null and void the work of hundreds and thousands of efficient workers, "just as an incompetent general can ruin the finest army".

The necessary qualifications of an ideal captain of industry are :—

- (a) The ideal entrepreneur must be a thorough organiser of production and as such his knowledge of things in his own trade must be adequate. "He must have the power of forecasting the broad movements of production and consumption.....". "He must be able to judge cautiously and undertake risks boldly ; and he must, of course, understand the materials and machinery used in his trade".—(Marshall). In other words, he must have an adequate knowledge of the physics and mechanics of industry.
- (b) He must have imagination and judgment and some degree of venturesomeness and courage which are essential for successful business management.
- (c) He must also have executive capacity.
- (d) Finally, his position, in the main, is one of leadership. His brain is full of ideas the working out of which devolves upon his

subordinates. It is here that inborn capacity counts more than training and environment.

Various phases of Business Management :—

The responsibility for successful organisation may rest with a single person or it may be shouldered by several persons. The various forms of business management are, single-entrepreneur system, partnership, joint-stock company or corporation, co-operation and government undertakings of business management.

A. Single Entrepreneur System :—This form of business management is the work of the individual producer. He might own and use his land, capital and labour. The most perfect example is that of the peasant proprietor; or, he might hire these and bear the risk consequent on their employment. He stands to earn profits in case the factors of production are properly organised and directed and stands to lose in case of ineffective direction. The law of survival of the fittest weeds out the weak and causes the strong to survive.

This form of business management holds the field in small scale productions, for instance, in agriculture, cottage industries, tailoring and in the various professions. The advantages are that the producer has a free hand in conducting the enterprise as no other controlling bodies exist to hamper him in his business. The fact that he has no others to

Its advantages and

share the profits and losses with is a great incentive to whole-hearted work.

The disadvantages are that this form of business management compares unfavourably with corporate forms of management. The difficulty of securing loans on one's individual credit is a great obstacle. He is too conservative to adopt new methods and initiate venturesome tasks.

B. Partnership :—This is a voluntary combination of a few men and may be taken as a natural outcome of introduction of machinery and rapid development of industries. There is a division of work among the partners. For instance, in the manufacturing industries, one partner is responsible for the purchase of raw materials and sale of finished goods and another looks to the internal working of the factory. As Marshall says, "in these and other ways private partnership is capable of adapting itself to a great variety of problems. it is very strong and very energetic ; it has played a great part in the past, and it is full of vitality now".

The advantages are the following :—

Advantages of Partnership :

- (1) Different kinds of business abilities are brought together.
- (2) It can secure greater capital than in single entrepreneurship.

(3) The unlimited liability of partners is a safeguard against rash and speculative ventures.

The disadvantages are:—

- Disadvantages of Partnership :**
- (1) Difficulties of plurality of control.
 - (2) Unlimited liability of partners (partners being liable to the fullest extent of their private assets) limits much its scope.

Each partner is individually liable, without limit, for all debts of the firm.

(3) It has no perpetuity of life. Death, retirement, insolvency of any one member brings the firm to an end.

C. Joint-stock Company or The Corporation :—It is an association of a large number of persons who may be strangers to one another and are investors, but need not actively participate in the management. It may be that some corporations are small, but, generally speaking, large undertakings are invariably taken up by such organisations. In the eye of law, the corporation is a single person, it can sue and can be sued without naming individual members.

When a Joint-stock Company is formed, those responsible for its formation decide that it shall have a certain capital and the amount so determined is stated in a document called the memorandum of association. The corporation has its articles of association which is another document in which is stated how business is to be conducted, directors appointed and so on.

The capital is then divided into a number of shares,

A share-holder may either pay the whole value of the share in which case it is a fully paid up share, or he may not pay the full price all at once, but only a fraction, the rest being realised by instalments or may not be realised at all.

The shares are of different kinds. They may be 'preference' and 'ordinary' shares. The preference share-holders have a prior claim upon such

Kinds of shares—

of the profits earned each year by the company as the directors decide to distribute. And in case the company is wound up, in the distribution of the assets of the company the preference share-holders also should have a prior lien. In return for these privileges, preference shares get only a limited dividend (say, 5 per cent, beyond which it will not go) and the rest of the profits would go

Preference shares,

to other classes of share-holders. Generally, preference dividend is cumulative (i.e. deficit dividend of one year has to be made good from subsequent years' profits before dividend on other shares can be paid). In some companies, the preference shares are *participating* when, in addition to the stipulated dividend, they are allowed to get a previously agreed-upon share of surplus profits.

Ordinary share-holders have, - therefore, to wait until preference share dividends have been paid, but what dividend they get is the whole of the residue. Thus, instead of it being limited, it may be very much (or perhaps

Ordinary shares

none at all). Occasionally, a corporation has also deferred shares which rank after ordinary shares.

After the ordinary share-holders have got a certain amount, the rest is distributed among the deferred shareholders. There may also be other kinds of shares and the principle is that the greater the risk, the greater the prize.

The different sources from which the capital is obtained are :—

(1) Shares which are of various kinds.

(2) Issue of debentures. Debentures are of the nature of a mortgage upon the assets of the enterprise. These carry a fixed rate of interest and are issued for a definite period of time. Sometimes debentures are irredeemable and the company has to pay interest only and is never found to pay a principal at all. The debenture-holder is a mere investor and gets a stipulated interest and has no risk to undertake. It is because of this safety that he is content with a lower rate of interest on his debentures than the preference share-holder will require on his shares. This explains why many companies prefer to obtain fresh capital in the shape of debentures rather than resort to the issue of fresh share.

Different sources from which the capital of a corporation is obtained.

How a corporation proceeds to work.

The share-holders select directors from among them and the directors choose the managers. Thus there is a clear separation

between ownership - (vested in share-holders) and management (vested in directors).

For development of industry corporation is specially suitable and it presents the following advantages :—

Advantages of the corporation.

(1) Large-scale operations have been facilitated and conduct of big enterprises need no longer be undertaken by the state.

(2) Limitation of liability of share-holders has promoted large-scale operations. Every enterprise involves risk. But the risk of loss is spread over a number of investors and individual hardship is minimised. Even a big capitalist, by distributing his resources, over many corporations, can ease the situation. Shares are transferable and this transferability is a great advantage to the community as it makes possible a division of risk.

(3) It promotes new enterprises and because of limitation of liability venturesome operations are floated as the investors invest with readiness.

(4) The ease of investment stimulates the habit of saving and thus contributes to the growth of capital. "Savings have been made liquid, so to speak, and can flow with ease and in any desired volume wherever there is a prospect of their advantageous use".

(5) The fact that shares are transferable leads to a beneficial effect. The ownership and particularly

control of business is vested in the hands of those who are most competent.

(6) It has a perpetual life as the shares are bought and sold in the open market and transferability of shares helps in the perpetuation of business and maintenance of a continuity of policy.

(7) The democratic management of business conduces to efficient management as things have to be managed before the eyes and criticism of the investing public.

The disadvantages of corporate management of business are :—

Disadvantages of the corporation

(1) The directors are sometimes incompetent men, sometimes they act most selfishly. It is difficult to appraise the qualifications of directors and managers. Their lack of business morality sometimes jeopardises the interest of the stock-holders. The unsuspecting investors are thus victimised.

(2) The managers cannot work with a singleness of purpose as they are subject to the control of the directors who again have to humour the share-holders. There is thus a conflict in management and business expansion is hampered by divided counsels.

(3) Although the ultimate risk-takers are the share-holders, they have no hand in the control of the business. In many cases they are not aware, for instance, that most cruel treatment is meted

out to the employees, that women workers are exploited and the like. In short, they invest their savings, but do not know how these are utilised.

(4) It is said that a Joint-stock Company is unsuited to pioneer enterprises and to such works the demand for which fluctuates owing to changes of fashion. And the reason is obvious. The share-holders have to be paid dividends and various other interests have to be looked to and so operations requiring routine-work are usually preferred.

(5) Finally, it tends to produce a demoralising atmosphere and corrupt politics. It resorts to bribery of public officers to gain selfish ends.

D. Co-operative Management Of Enterprise :—The Co-operative business enterprise is a negation of the entrepreneur system of industry. It is an antithesis to capitalistic enterprise (although it may itself borrow capital). Historically speaking, this form of business enterprise had its origin in the idea that entrepreneur is a middleman, an interloper, a parasite, and has no ethical justification to exist and deprive the labourers of the fruits of their legitimate toil. Co-operative enterprises are of diverse kinds, but the principle underlying each form is that the labourers themselves control the business and hire land and capital on their responsibility. By a system of rotation every one is given a chance to direct and control, sometimes the services of paid managers are

secured. Hence, after paying for land and capital, the surplus earning is shared among them. It is in this way that the business men's profit is done away with.

Three different forms of co-operative enterprise may be noted:—

Productive co-operation, otherwise described as "labour-copartnership." The workers either advance their own capital or supplement it by borrowing from outside. It has no record of success as the duties of an ideal entrepreneur cannot be performed by the rank and file. The managers who work are of mediocre talent as the workers are loath to pay high wages to capable managers, and this false economy often wastes more money than it saves. "Its future is at once a result and a proof of the rarity and the importance of business leadership." "Co-operation cannot dispense with these leaders." Another draw-back is that the workers are jealous of one another and they are not the best masters of their own managers and foremen. As Marshall has said, "jealousies and frettings at reproof are apt to act like sand, that has got mixed with the oil in the bearings of a great and complex machinery." It can, however, successfully work under the simplest conditions, namely, when the amount of capital expenditure is small, no great skill is to be displayed in management and the produce can be easily marketed.

(a) **Productive co-operation.**

(b) Co-operation among consumers, also described as "Consumers' or distributive co-operation", has three important forms—Co-operation in retail trade, credit and banking, retail trading, co-operation in credit and in Banking operations.

This form of Co-operation is the simplest and the most successful. A number of co-operators subscribe a fund, buy the goods of daily life at wholesale price and retail them to the members of the society. The profits earned are divided among them in proportion to the purchases made. The English Co-operative stores have achieved notable success and the reason is the adoption of the system of cash-payments. All bad debts are avoided. It also avoids expenses of advertisement. Economies are also made in the handling and packing of goods.

The typical example of success is the Rochdale Equitable Pioneer's Society which was, at its inception, a society of twenty-eight weavers of Rochdale in England with a capital of 28 pounds, founded in 1844. At the first stage, the Society undertook to supply the members with a few articles, flour, oatmeal, butter and sugar. The society steadily prospered, its membership increased and there was also an extension of its activities. Goods are sold by the society at current or market rates and periodically the profits are divided among the members in proportion to their purchases. Slips are given to members indicating the amount of

purchases made which are presented from time to time to enable them to get a rebate. The salutary practice of paying the rebate after gains are made and in a lump help in the making of savings. The store also acts as a Savings Bank as the dividends or accumulated profits may be invested as capital on which interest is earned. The Rochdale Society allots large sums from profits for educational purposes. In another branch it undertakes the management of mills and factories. Their management, however, is not co-operative and services of paid managers are secured.

In the Continent of Europe co-operation in distribution has also achieved remarkable development. But in the U. S. A. distributive co-operation has not been so successful partly because of the great mobility of population from one place to another and partly because of the greater prosperity of the American people, which makes them indifferent to such small economies.

The achievement of Germany in co-operation for securing better credit facilities is truly remarkable.

(c) **Co-operation in credit.** The names of Schulze of the town of Delitzsch and of Raiffeisen are associated with this movement. The Schulze type of society is run for assisting small traders and artisans for getting loans at cheaper rates of interest. His first Co-operative Bank was established in 1849 and since 1860 the system has made rapid progress. The

members collect small capital and attract outside deposits by offer of a fair rate of interest. The funds placed at the disposal of the society are loaned in modest sums and at moderate rates of interest to the members after scrutiny of the circumstances of the borrower. In the early associations, the liability of the members was unlimited, but now it has been changed into limited liability. The phenomenal success achieved in Germany is due largely to the fact that small scale methods of production persist in that country.

The other phase of the Co-operative Movement is of the Raiffeisen type. The members are generally peasant proprietors. A part of the funds is contributed by the members and a part borrowed, as in the first type. As the object is the financing of agricultural operations, loans are given for comparatively longer periods than in the case of urban societies. Each society consists of a few members and the area of operations is limited to small localities. "The essence of success is neighbourly knowledge and supervision."

Other kinds of Co-operative societies are societies for the purchase of raw materials, sale of finished goods, purchase of expensive machinery. There has taken place a many-sided development of Credit Co-operation in Italy. Only France has a poor record to show. In the U. S. A. building and loan societies have achieved a brilliant record of success.

The benefits of a Co-operative form of enterprise are :—

- Advantages of Producers' Co-operation.**
- (1) There is no industrial unrest, no strikes, no lockouts as the labourers themselves are the enterprisers.
 - (2) The labourers have not to work under any master and so they work whole-heartedly. There is no shirking of duties.

The drawbacks of Producers' Co-operative enterprise are :—

- Disadvantages of Producers' Co-operation.**
- (1) The complications of modern industry make Co-operation very difficult. The Co-operators do not possess the skill, intelligence, courage and judgment which are essential in successful business management.

(2) There is jealousy, vacillation and no carrying out of a policy with a singleness of purpose.

(3) The average body of labourers do not like the system as they are reduced to the position of speculators. A year of profit and high earnings alternates with a year of loss and no earning and it is for this reason that the labourers prefer to place themselves under the able guidance of capable employers or managers.

E. Municipal and State Management Of Business :

The most important form of consumer's co-operation is exemplified in the management of industrial

enterprises by the Central and Local authorities. The organisation of post office in India is run by the state for the benefit of the consumers of the services. Instances of municipal enterprises are the supply of drinking water, provision of markets and so on. Here also, those who control are the representatives of the consumers.

In two respects Government and Municipal Co-operative enterprises differ from the Co-operative agencies already described. The State and Local Officials earn fixed salaries and enjoy a security of tenure of office and as such have no incentive to efficient management. Men who are trained for other purposes are placed in charge of such enterprises and an ineffective management ensues. In the next place, these managers may fall back upon the power of taxation to make up any deficit. Hence, with few exceptions, these enterprises have not achieved any measure of success.

Large-scale and Small-scale production :

Production on a large scale is the characteristic feature of the modern industrial organisations and has been an invariable accompaniment of the industrial revolution. The advantages of large-scale production are most conspicuous in manufacture, because it has special facilities for concentrating a great deal of work in a small area.

Its advantages The chief advantages of production on a large scale may be enumerated thus :—

(1) Use of machinery. The larger the scale of operations, the better is the chance of using machinery to advantage. Power per unit is cheaper, because it is applied on a large-scale. Subsidiary operations are also advantageously carried on with machinery. An ocean-steamer of a large carrying capacity can carry goods at a much cheaper rate than wooden sailing vessels or small steam bottoms.

(2) There is a saving in general expenses of management compared to the large output. A large establishment can afford to spend large sums of money on advertisement as the cost is distributed over a large output. The same thing is true of Insurance premiums and other charges.

(3) There is also economy in buying the materials and selling the finished products. To buy in large quantities is to buy cheaply. The freight charges per unit are low as the consignment is large. Much trouble is saved in selling in large quantities. The cost of disposing of the product per unit is also small.

(4) The utilisation of by-products :—

Many things which would otherwise go to waste in a small establishment find an economic utilisation. Thus, wonderful economies have been effected in the meat-packing industries in America. Where every part of the live animal which is slaughtered—fatty matter, horns and hoofs, the albumen in the blood, bones, wool, intestines—find the fullest utilisation.

(5) The possibilities for large firms of experimenting with machines are great. Not that all attempts are successful. And so long the labours are not crowned with success, the expenses are unproductive. But once the attempt triumphs, the eventual gain more than outweighs the losses.

(6) From all these considerations, it follows that a large firm secures the benefits of increasing returns by successive application of labour and capital.

The advantages of large-scale productions are telling and one may be disposed to argue that small firms failing to stand their impact will soon be eliminated. But the fact that small firms persist and co-exist with large firms shows that—

**Limitations
on large-
scale
production.**

- (a) There are limitations on large scale production which arise from the weakness of men's faculties, that is, weakness of human nature. There are few talented men in the world who can keep within control very big industrial organisations.
- (b) Small firms have also advantages of their

own :

The advantages of small-scale enterprises may be summarised under the following heads :—

**Advantages
of produc-
tion on a
small scale**

- (1) Saving in superintendence :—The small producer by personally supervising the business and by taking a personal

interest in the welfare of his employees saves expenses and contributes to smooth working. In the words of Marshall, "the master's eye is everywhere; there is no shirking by his foremen or workmen, no divided responsibility".

(2) The products of a small firm possess a better finish, look like their being made to order and as such have a peculiar fascination from the customers. They are not standardised goods of big establishments. This is the main reason why many cottage industries in India are persisting even against odds.

(3) In agriculture, for instance, it has a great vitality as different soils may be utilised by the growing of crops best suited for each.

(4) Specialisation and large scale production have also a limit and "division of labour is limited by the extent of the market." Unless there is a large market and a large and continuous demand, it will not do to adopt large-scale methods.

(5) Most of the advantages of large scale production can be secured by a group of small scale producers if they concentrate in a locality and take the fullest advantages of the Co-operative Movement; namely, in buying, selling, marketing and finance. Just as there are huge machines so there are portable ones and a small producer is not precluded from using the latter.

The advantages of a large scale production are

most conspicuous in manufacturing and transport industries and in banking; those of small scale production in extractive industries, that is, agriculture, mining and fishery. In retail trading, the small establishment used to hold the field because it could sell on credit, bring goods to the doors of the consumers and humour their tastes by bringing the requisite kinds of things. But even here the large establishment is making an inroad, specially in towns provided with facilities of transportation. The people can go to it from one end of the town, at a small expense and within a short time and can have the satisfaction of choosing the goods from a varied stock.

Laws of Diminishing, Increasing and Constant returns :

Law of Diminishing Return : This law has already been discussed in the chapter on Land. The teaching of the law may be here briefly indicated :—

Up to a certain point, increased amounts of labour and capital are accompanied by more than a proportionate increase in the product. When, however, the point is passed the additional returns diminish rapidly and might altogether cease. Hence, if the population of a country is continuously increasing, to enable it to subsist either new lands, less advantageous than the old ones, have to be taken up for cultivation, or the people will have to

**Relative
province of
large-scale
and small-
scale firms.**

**Applies
specially in
agricultural
industries :**

content themselves with obtaining increasing supplies from the old lands by applications of more doses of labour and capital. In either case, extra supplies may be obtained at more than a proportionate cost per unit. Hence, if the demand for agricultural products rise, prices also rise. In the reverse case, a decline in demand means that smaller supplies are available at less than a proportionate cost per unit and hence prices fall. In other words, prices of agricultural products vary directly with the amount produced.

Its influence on price.

Law of Increasing Return :

This law is the converse of the Law of Diminishing Returns and may be stated thus :—"The expansion of an industry, provided that there is no dearth of suitable agents in production, tends to be accompanied, other things being equal, by increasing returns." With every expansion of an industry, it gets more specialised and more machinery per head tends to be used for it, and the subsidiary industries, transportation charges and the commercial charges lessen per unit. Consequently, increasing returns, that is, diminishing costs follow. Hence, in industries subject to increasing returns, the price of the product falls with each expansion and extra supplies may be got at less than proportionate cost of production.

Applies specially to expansion of manufacturing industries.

Suppose now the demand for the product increases

and more supplies have to be provided for. Increased supplies will be forthcoming at less cost and conversely, in case of a decline in demand, the reduced supply will cost more per unit than formerly. Hence, prices vary inversely with the amount produced.

Its influence on price.

Law of Constant Return :—

If the actions of the laws of Increasing and Diminishing Returns are balanced, the law of Constant Return is the consequence. An increased or decreased amount is obtained at a cost per unit which remains constant. It may be stated briefly why the law of Constant Return comes into play. The law of Diminishing Return has a marked influence in extractive industries and its influence on manufacturing industries is less sharp as it is combatted by the ingenuity of man. Hence, in manufacturing industries increasing applications of labour and capital lead to improved organisation and increasing return is the result. Thus "the part which Nature plays in production conforms to the law of diminishing return, the part which man plays conforms to the law of increasing return." Accordingly, in those industries where the two opposing tendencies balance or neutralise each other, that is, the lessening yield of Nature's bounty is just neutralised by improved organisation and inventiveness, Constant Returns follow. Here, an increase or decrease in demand, evoking an increased or decreased supply will mean no variation in

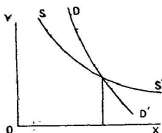
cost per unit, as all units are obtained at a constant cost.

An article produced under Constant Return would always sell for just what it costs to produce it.

Its influence on price.

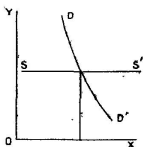
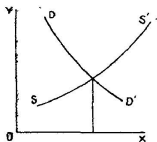
Law of Increasing Return

Diagrammatic representation of Laws of Increasing, Diminishing and Constant Returns.



Law of Diminishing Return

Law of Constant Return



SS' represents the supply price for various quantities produced.

CHAPTER 9

Value

Contents :—Theories of value. Labour theory of value. The Cost of Production theory of value. Supply and Demand theory of value. Market, its definition, Wide market. Market Price. Relation between market price and Normal Price. Certain special problems of value. Monopoly and Monopoly Price. Combination. Joint-supply. Joint-demand. Composite Supply. Composite Demand.

Some popular theories associated with value may be discussed :—

J. S. Mill said that the market value, or temporary value, of a thing depends on the demand and supply, rising as the demand rises and falling as the supply rises. But the permanent or natural value (as opposed to temporary value), to which the market value tends to gravitate, is governed by permanent causes. This theory and the others that follow are concerned with the permanent or normal values of things.

1. The Labour theory of value :—This theory approaches the problem of the permanent value from the side of supply. Its chief exponents are Adam Smith, Ricardo and Karl Marx. They hold that the value of a thing ultimately depends on the amount of labour expended on it. Thus says Smith, "It is natural that what is usually the produce of two days' labour

or two hours' labour should be worth double what is usually the produce of one day's or one hour's labour". Similarly, Ricardo speaks of labour as "the foundation of all value, and the relative quantity of labour as almost exclusively determining the relative value of commodities." The theory allows for the use of capital which is simply "stored up labour".

However attractive the theory is, it cannot be accepted as an explanation of existing values ; it is too simple to be taken as a scientific basis of value. Labour has no definite meaning and the "amount of labour" needed may refer to skilled or unskilled labour, manual or intellectual labour, different kinds of manual labour etc. How to reduce all this labour to a common measure ? According to Marx, "the quantity of labour is measured by its duration, and labour time in its turn finds its standard in weeks, days and hours." He takes "unskilled simple labour" and elsewhere "average" labour as the standard ; again, he says, that the value of a thing depends on the amount of "socially necessary labour", otherwise it cannot be explained why an hour's work of a barrister is equivalent to the work of one year of a farmer. This is, however, arguing in a circle and the labour theory of value simply leads to one conclusion that value depends on value.

II. The Cost of Production theory of value :—This theory also, like the labour theory,

attempts to explain value from the supply side alone. In estimating the cost of production, however, wages, interest and profits are taken into consideration. Cost is the necessary price of a good and under a competitive regime, the value of a thing can neither remain for long above or below cost of production. But in agricultural operations, where different producers have different costs (because of differences of fertility or situational advantages), value was stated to depend on the cost of production under the most disadvantageous circumstances. This theory of value has been rejected and the grounds for rejection are the following :—

- (a) Cost may be misdirected and the article may not fetch any value at all. The producer of an article which turns out to be useless can never realise cost of production.
- (b) A common phenomenon is that a commodity, produced at a certain cost, when sold, may fetch a price other than the cost of production. The cost was incurred once for all, it relates to a past event, but value has to be realised in the future and values do fluctuate.
- (c) Again, there is no connection between cost and values of goods which have a scarcity or prestige value or where the cost is not capable of exact determination (e. g., the cost of carrying a passenger in a railway).

- (d) The cost of production is different for different producers (as some producers are more efficient, others less efficient), again different in different industries. In agricultural industries cost per unit increases with increased production, it diminishes in manufacturing industries.
- (e) What generally happens is that a producer takes cost of production as the minimum below which he will not let the price fall, and would want to sell it at as high a price as circumstances will permit.
- (f) Cost of production cannot determine the value as the cost itself is reached by adding together a number of values (e.g. value of the raw material used, value of capital, labour and so on). It is futile to say that cost determines value, since cost itself is determined by values of the constituents.

From the analyses of these two theories of value we are led to conclude that value cannot be explained by a consideration of the conditions of supply alone. But in spite of the defects of the Labour and Cost of Production theories, they are not altogether worthless. And, in the long run, the value of an article is determined by the efforts required to bring it into existence.

Element of truth in the two theories.

If value cannot be exclusively determined by the

cost of producing a thing, the question that arises is : at what price will the seller sell the article ? Evidently, the consumer's is the final decision and if the price at which the seller is willing to sell, will not meet with a response from the consumer, the thing may not be sold at all. What price, then, will the consumer consent to pay ? Naturally, he will pay as much as the thing is worth to him. He wants to buy a thing, not for the sake of buying, but for satisfaction of a want and the utility of the thing to the consumer prompts him to offer a certain price for it. Hence, an article can have

Utility, a necessary condition of value.

But value not proportional to utility.

no value unless it has utility. And unless people are foolish or childish they will not pay anything for a thing unless it yields them some satisfaction. Utility is, therefore, a necessary condition of value. But it must be realised, that the value of a thing is not proportional to its utility. Had utility alone

been the determinant of value, things like fresh air, water and other free goods which satisfy the most pressing wants, would have commanded a high value. On the other hand, goods like jewels, pearls and similar costly luxuries have a high exchange value, although their utilities are comparatively insignificant. In these cases utility and value vary inversely with each other. Another difficulty is that the utility of a thing is different to different persons, while its value is the same to all of them. Thus a postcard costs 3 pice to a millionaire and to a starving man. Again, the utility of

a thing, say a loaf, to a hungry man is greater than when he is less hungry. But the rich man and the hungry man do not pay a higher price than the poor man or less hungry man.

The explanation of difficulties like these is that the utility of the total supply of an article is different from the utility of a given dose of it. To use two technical expressions (the student is referred to the chapter on consumption where these terms are explained) the total utility of a thing may be indefinite but, in view of the inexhaustible stock of it, the marginal utility may be nothing. And in finding the values of things, we take their marginal and not total utility into consideration.

The true theory of value—Supply and Demand theory :—The marginal utility theory of value at best is a statement of the principle that value depends on supply and demand, i.e. that the value of a thing depends on the supply of a thing in relation to its demand. By "supply" is meant the amount that will be offered for sale at a certain price. By "demand" is meant the amount that will be bought at a certain price. That the value depends on demand and supply is easily proved. If the price is lowered more will be bought and, conversely, if the price is raised less will be bought. Hence, sellers, to induce buyers to buy more, must lower the price ; if price is

raised buyers will buy less. So again with the supply. At a certain price, a certain amount of a thing is offered for sale, at a higher price more is offered to be sold and less at a lower price. If buyers want more they offer a higher price, if they want less they succeed in reducing the price. To express it in terms of marginal utility : marginal utility is low in case of large supply. Increasing supplies of different goods affect their prices in different ways. Thus with extractive industries (obeying the law of Diminishing Return) the price rises with increasing supply, with manufacturing industries (obeying the law of Increasing Return) the price falls with increasing supplies and price remains stationary for increasing or diminishing supplies for industries obeying the law of Constant Return. Again, the extent of the fall in marginal utility with increasing supplies depends on the nature of the demand for the thing. Thus, if the demand is elastic the marginal utility falls less sharply than in case of inelastic demand. If the price of a thing rises the supply will increase with the result that the price will fall. So also, if a thing is produced in excess (supply being greater than the demand) the price will fall below the cost of production. The supply will shrink as a consequence, the price will rise until eventually the marginal cost of production is reached. It is then that the supply and demand equate. And in the long run, under a competitive regime, the normal price of a thing will equal its Cost of Production (i. e. marginal cost). Dr. Marshall has succinctly

expressed the two-fold influence of supply and demand on price by the analogy of the two blades of a pair of scissors. Just as both the blades are moved for purpose of cutting and neither blade is more important than the other, so normal price is determined by the conjoint influences of forces of supply and demand.

The three diagrams given below may help to understand the principles underlying the determination of value :

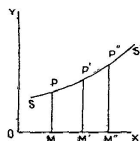


Fig. 2

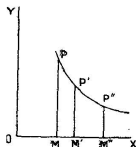


Fig. 3

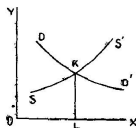


Fig. 4

In figure 2, the amounts OM, OM', OM'' etc. are

forthcoming at prices respectively PM , $P'M'$, $P''M''$, etc., i.e. the amounts offered for sale increase with every increase in price. Hence, SS' (i. e. loci of the points P , P' , P'' , etc.) is the supply curve.

In figure 3, the amounts OM , OM' , OM'' , etc. are amounts demanded at prices PM , $P'M'$, $P''M''$, etc., i.e. these amounts increase with every fall in price.

In figure 4, the supply and demand curves intersect at K and KL is the normal or equilibrium price (i.e. the demand price KL equals the supply price KL).

Market Price :

We are now in a position to distinguish and find the relation between normal price and market price. The market price is the price ruling in the market at any time.

Definition of market :

A market, in the ordinary sense, means a 'bazar', a rendezvous of buyers and sellers, and so there is a physical contact of the two parties. But, in the economic sense, market refers not to any place, but to things, and buyers and sellers are in direct competition with one another. A market includes the whole region "in which buyers and sellers are in such free intercourse with one another that the prices of the same goods tend to equality easily and quickly." In a perfectly organised market, the same price for the same thing prevails at the same time in all its parts. The area,

however, may vary, as between different commodities, and so the market may be local, national or international. Also there may be different markets for the same article in the same place, as for instance, wholesale and retail markets.

Three conditions must be satisfied in order that goods may have a wide market :—(1) The demand for the goods must be universal (for instance : wheat, cotton, iron, coal etc.)

(2) The commodities must be capable of being graded and sampled.

(3) The commodities must also be portable, i.e. they must be durable and stand a long carriage and also contain a large value in a comparatively small bulk (for instance : gold, silver, stock exchange securities etc.)

Market price :—The market price may change from day to day according as there are changes in supply and demand. If the supply at any given time is greater than the demand, the several sellers will have to make special efforts to dispose of their goods. None likes to keep the stock unsold ; competition among sellers, therefore, becomes active : The price falls and the lower price induces the buyers to take more of it, but the producers are discouraged from sending so much. In other words, lower prices increase the demand and diminish the supply until a new point of equilibrium is reached. Conversely, if the demand at any given

time is greater than the supply, the buyers will offer special inducements in order to get the article which they want. There is not enough good for everybody at the prevailing price. A sure scarcity of the thing becomes inevitable in the near future. The sellers are induced to withhold the stock hoping to get better prices in future. The buyers can no longer get the thing at the ruling price which starts rising. How far the price will go up depends largely on the number of buyers who withdraw from the market at every rise in price. The self-interest of each seller leads him to refuse to sell so long as the demand exceeds the supply and to sell when demand and supply equalise.

The causes of variations in the market price are easily explained. Supply and demand are influenced by numerous factors and these will produce their effects on prices. Hence, market price is subject to fluctuations, however temporary, and is the outcome of higgling and bargaining between buyers and sellers.

With these general remarks, the manner in which the market price is established may be described by citing the following cases :

1st Case :—Suppose, there is only one seller, one buyer and only one thing, say a dog, in the market. Suppose further, the seller's minimum price is Rs. 10/- and the buyer's maximum price is Rs. 8/-. If the two parties hold to this, there will be no sale, no purchase, i.e. no transaction.

2nd Case :—Assume now that the conditions are different. The seller's minimum price is Rs. 10/- and the buyer's maximum is Rs. 15/- (i.e. he would rather pay it than not get the dog). No body at first, however, knows each other's mind. This time a transaction takes place, the actual price being fixed between Rs. 10/- and Rs. 15/- according to the relative bargaining capacity of the buyer and the seller (i.e. higgling and bargaining).

3rd Case :—Suppose now, the seller's minimum is Rs. 10/- and the buyer's maximum is also Rs. 10/-. A sale takes place at the price.

4th case :—Suppose now, that there are three buyers for the dog, each willing to pay Rs. 10/-, Rs. 15/- and Rs. 20/- respectively, but there is only one dog to sell and only one seller whose minimum price is Rs. 10/-. In this case, there is *competition* in buying, but no competition in selling. The first buyer will not bid above Rs. 10/-, the 2nd buyer not above Rs. 15/- and therefore the market price settles between Rs. 15/- and Rs. 20/-. If the third buyer is shrewd he will not pay much above Rs. 15/-, as he must have noticed that any price above Rs. 10/- will induce the seller to sell the dog rather than not sell at all.

5th Case :—Next suppose, that there are three dogs to be sold, owned by three persons and three buyers, that one seller's minimum is Rs. 10/-, another seller's Rs. 15/- and the third seller's Rs. 20/-.

Suppose further, that the maximum price of the first buyer is Rs. 15/-, the same for the second buyer and that the third buyer's maximum is Rs. 20/-. Suppose also, that the three dogs are exactly similar. The third buyer does not propose to pay more than what the first or second would pay. The market price would be settled between Rs. 10/- and Rs. 20/-. But as the first and the second buyers each offers Rs. 15/- and there is only one dog available for sale at that price, and another dog at less price (Rs. 10/-), the majority of buyers and sellers would indicate price at Rs. 15/- whether the dog is sold or not.

6th and final Case :—What actually happens in a market is an enlarged application of the 5th case. There are many buyers and so there are many sellers ; there is competition in buying and selling and when a large number of buyers and sellers compete, the price is settled as follows : Self-interest of every individual will be most active and the price is established between the seller's minimum and the buyer's maximum. In other words, under a free competition, the market price for all bidders is established between the subjective valuation of the last buyer and the last seller.

Relation between market price and normal price :—The market price is an ever fluctuating price. Its movement is like that of a shuttlecock tossed hither and thither. But the market price oscillates about a point called the normal price, and it always tends to

gravitate towards the normal price. But there are so many factors that intervene and prevent the one from being identified with the other. "Market price is like the surface of the water agitated by the winds,—the waves are now above, now below the surface ; yet as long as the winds persist we never see the glassy surface. The alternate activity of buyers and sellers is the wind of commerce, which prevents the normal price from being visible."

Thus, although the market price of an article may considerably change over a sufficiently long period, a fairly constant price may be discerned in the case of many articles. And it is above or below this long period price (normal price) that the market price fluctuates.

Certain special problems of value :—The theory of normal value applies under condition of free competition. But when there is an interference with supply and demand, economic forces have no scope for action, and the supply and demand theory of value has no full play. Thus monopoly is a special case. If there is competition among buyers only, there being only one producer, it is a case of monopoly. In the reverse case of one-sided competition, that is, competition among sellers only, there being but one buyer, we have buyer's monopoly. The word monopoly is usually applied to designate production of goods in the absence of competition among producers.

A monopoly thus implies a single-handed control of the entire supply, or a substantial portion of it, so that by restriction of supply the monopolist can control price, i. e. charge whatever price he likes.

The question that arises here is : Is the monopoly price an exorbitant price ? The theoretical position of a monopolist is that he is at liberty to charge any price he likes as he has no other competitor to fear. But the object of the monopolist is to secure the greatest net profits and rising prices, as a rule, reduce the number of articles to be sold. A large profit on each of a small number of articles may be less than a smaller profit on a much larger number of sales. And various considerations weigh with the monopolist in fixing the price even somewhat below what may give the highest profit. There is fear of potential competition. The demand for the article may altogether cease or the people may be driven to the use of a substitute. There is also a fear of governmental interference. Because of these considerations a monopolist may not exact all that is possible from the buyers. And in actually fixing the price he well remembers that he will charge "what the traffic will bear." A successful monopolist, of course, will get more profits for his plant, outlay in wages, management and the like than a competitive business of the same dimension. This additional profit becomes possible because of monopoly. It is

What is meant by monopoly?

Is monopoly price an arbitrary price ?

paid for by the consumers of the monopolised product. Hence, monopolistic price, in the ordinary circumstances, is higher (but not by much) than competitive price.

Elimination of competition is not wholly an evil. Competition often leads to unnecessary and wasteful duplication of plant, labour, etc. There may be too many transportation systems in a small town for effective service. Two electric plants in such a place are a wasteful way of supplying electricity. Rather have one plant in the interest of efficient production.

Relative merits of competition and monopoly.

Competition leads in many cases to adulteration of food, the producing of inferior brands etc, as the producer is concerned with profits and cut-throat competition means a dearth of profits.

But unrestricted monopoly is equally bad. Absolute and unregulated monopoly tyrannises the consumers. It creates a sharp cleavage between two classes of people, producers and consumers, and in the end a social stratification with extremes of fortunes and abject poverty is perpetuated. It has been urged in favour of competition that it "keeps every one keyed to a high pitch, nerves the shrewed and alert, weeds out the inefficient." Hence, a society should look with favour neither upon unregulated competition nor unrestricted monopoly.

There are monopolies of different types and

methods of classification are also different. According to one method monopolies are classified according as they are public or private. A public monopoly is owned and operated by some public or semi-public organisation, such as, government or municipal body etc. The postal service of India and the supplying of water and lighting of streets of Calcutta are instances of public (government and municipal in the two cases) monopolies. It may be added that public monopolies are operated not primarily for profits, but for the good of the community.

A private monopoly is owned and operated by an individual or private body of individuals. Hence, there is a presumption of profits being reaped.

Monopolies are also classified as Social or Natural. Social monopolies rest upon some special privilege granted usually by the government or by some other monopoly. Thus government grants patents and copyrights which are social monopolies.

A natural monopoly arises out of economic conditions. Thus land, in so far as it is a monopoly, belongs to this class.

Monopolies may also be viewed from another point of view. They are either legal or voluntary.

Legal monopolies are created by law. Thus inventors and authors are specially protected by patents and copyrights.

Legal and voluntary

Voluntary monopolies arise either from the absorption by one business of other businesses or by the destruction of rivals ; or from the purchasing of competing firms or from voluntary agreements. The first method creates industrial combinations known as "Kartels" and "Trusts". In Kartels the constituent firms retain their individualities. In Trust the individuality is lost.

The economic cause of combination is a reaction against intensified competition. The other conditions

favouring combinations are :—

Conditions that favour combination

(a) Protective duties which protect the home industries from foreign competition.

(b) Existence of a few firms for an industry which require a heavy capital outlay. For the sake of solidarity, the firms combine and new-comers are precluded from entering.

(c) Existence of natural scarcity tending to concentration in a few hands, for example, anthracite and oil in America, potash in Germany etc.

(d) In the case of production of easily standardised goods (with chance of mass production) combination is easy enough,

(e) In case of localised industries.

(f) A common danger like a war which creates a feeling of fellowship among the competing firms.

According to Marshall, in the following three cases combination among producers is not likely to materialise :—

Where
combina-
tion is
unlikely

(a) Producers producing for their own consumption.

(b) Producers of small quantities of goods and selling them in the open market. The current prices are not likely to advance much by combination.

(c) In case of ownership of absolute monopolies the temptation of combination is non-existent.

Two kinds of combination, Horizontal and Vertical :

Combination of a number of firms of the same type under single management is called Horizontal combination, namely, the "Trust". There is another kind of combination, called Vertical, which is a union under single management, of the successive stages in the same industry. Thus, the United States Steel Corporation is a vertical combination and it owns mines of iron, coal and limestone ; it has its own railways and steamers.

Of the two forms of combination, horizontal combination is capable of an easier realisation than vertical combination. The motives for combination are, first, the elimination of the evils of intensified competition and secondly, the securing of economy of large scale management.

Other special problems of Valuation :—

When two or more goods are produced from the same origin and cannot be easily separately produced; e. g. gas and coke, wool and mutton, rice and straw, cotton fibre and cotton seed etc., they are known as joint products. In most cases, the proportion between the two products, say, meat and hides, is fixed, but the separate demands for them is liable to great variations. The selling prices from the joint products must cover the joint expenses of production. Suppose, the demand for cotton rises; its price will rise and the higher price will stimulate production. But as the demand for cotton seed remains unchanged, its price must fall as its supply also increases. Cotton seed selling at a lower price, cotton must have to sell at a higher price. The total selling price for both products will suffice to cover the cost of production and yield a profit.

Joint demand refers to demand not of one single product, but a combination of products. Thus, the demand for a finished article, say a dwelling house, is a *direct* demand and is *derived* from *indirect* demands for bricks and services of masons, carpenters and plasterers. The use of a house is naturally dependent upon the use of the factors that participate in its production. The supply price of the house is the sum-total of supply prices of its constituents. The numbers

of houses sold become the quantity at which the demand price equals the sum of supply prices of the constituents and the prices paid for these constituents are these supply prices.

When an article has several sources of production, the total supply is made up or compounded of the supplies from these several sources. Thus

III
Composite supply (tea, coffee, cocoa). the demand for hot drink is satisfied by the supplies of tea, coffee and cocoa. The goods are rivals to one another and the theory of substitution is applied to determine which of these is to be used and if the price of, say, tea is high people will use more of coffee or cocoa.

Most raw materials and different kinds of labour can be used in the production of entirely different products. Also many things may be diverted

IV
Composite demand (iron for machinery, railways, knives etc) to one use or another. The demand, in such cases, for the commodity is said to be composite and the total demand for it is the sum of its derived demands, having taken into consideration each of the several uses. Thus, iron is needed for the making of machinery, knives, bridges etc.

CHAPTER 10

Exchange

Contents :— Barter. Money. Properties of metallic money. Functions of money. Definition of money. Coinage. Gresham's Law. Kinds of Paper Money.

Introductory :—

In the earliest stages in evolution, men realised the importance of exchanging some product, of which he had a surplus stock, for another product which his neighbour happened to possess in excess. It is easily imagined that this led the fisherman, for instance, to offer his surplus catch of fish in exchange for the surplus flesh of the hunter.

Barter, its several forms :—

And this direct exchange of one thing for another, known as barter, flourishes chiefly among undeveloped communities. Barter may take three different forms, namely,—

- (a) Exchange of commodity for commodity, i. e., when a ton of coal is bartered, say, for a maund of corn.
- (b) Exchange of commodity for services, i. e. when an hour's labour is bartered for, say, a full meal.

- (c) Exchange of services for services. This is a common practice even now among many agricultural communities in India when one gives his labour to his neighbour at harvest time, the latter performing a similar service on a similar occasion for the former, after a few days.

Difficulties of barter Barter is not suitable in any complicated system of trade ; even in primitive days it suffered from many difficulties and inconveniences which are as follows :—

(1) The difficulty of double coincidence of wishes. One condition of exchange by barter is that the desires of the two parties should mutually coincide or there would be no exchange. Suppose, a corn-grower is in need of cloth and the weaver in need of corn, then corn is bartered for cloth. But if the grower of corn needs cloth, but the weaver needs not corn but a loom, no exchange can take place.

(2) Absence of precise equivalence of values; Barter provides no standard of measurement ; no method of estimating the relative values of the commodities. People may not be able to agree to the terms. Take an instance : even if the wishes of the two people correspond (and thus the first difficulty is obviated), the goods to be exchanged may not correspond in value. One cow may be worth as ten maunds of corn, but the grower of corn having five maunds of corn to-

dispose of, will find that the exchange becomes impossible as the cow cannot be subdivided without loss.

(3) Maintenance of a complicated price schedule by a society placed on barter.

There must exist a list showing the relative values of one good in terms of every other article. Suppose the society is accustomed to the use of 100 articles. The separate measures of value would then be $\left(\frac{100 \times 99}{2}\right)$, or 4950 in number. The cumbersome position of society accustomed to 1000 articles can be well imagined. These difficulties are more accentuated when goods are exchanged for services or services for services.

Introduction of Money :—All these difficulties attaching to barter have been obviated by the introduction of money which plays the part of a common medium of exchange. It acts as a third or interposed commodity, intervening between two articles which are offered for exchange. But under money economy, the direct exchange of goods, one for the other, ceases and all exchanges are effected with money. What we now have is simply that the holder of an article sells it for money and with the sale proceeds thus obtained, buys other things for which he feels a necessity. Money, in other words, dissolves barter into sale and purchase.

The medium of exchange, called money, may be anything provided it is universally acceptable. The

sole purpose why money is substituted for barter is to get rid of its difficulties. And the object is naturally frustrated if some people would refuse to accept payment in that medium.

**Purpose
and content
of Money.**

The fundamental uses of money are two in number; namely, money serves as a medium of exchange, and secondly, as a measure of values. The employment of money (to remove the difficulties of barter) for the first purpose implies its use for the second purpose. It is for this reason that acceptability or exchangeability is a fundamental attribute or utility of money.

**Selection of
the money
material.**

Historically speaking, almost every imaginable article has been tried to be used as money. Any commodity that was largely wanted or available was tried as money, the choice being dependent upon the stage of a community's economic development. In the hunting stage, skins and furs, in the pastoral stage cattle etc. were used as money. Sometimes the material chosen was valued for personal adornment as wampum beads. It has been guessed by some thinkers that originally articles of food served as money, e. g., rice, dried fish, wheat, oil, tea, salt, tobacco etc., weapons were also used such as sword-hilts; in some places, implements were used like utensils. Also articles of clothing, even animals were used as money. The process of selection went on as people passed from the

hunting, agricultural stages and so on. With advance in trade and development of exchanges, necessity was felt for a durable, a compact article and preference to-day has been given to precious metals, particularly gold and silver.

Properties of metallic money :—

We may now state the reasons why the precious metals have superseded other commodities as money:—

- | | |
|---|---|
| Reasons for preference of precious metals. | <p>(i) Indestructibility : Because of durability, money serves as a means of transfer of value from place to place and time to time. The wear and tear of gold and silver coins is also small and this has also been minimised by mixing pure gold or silver with a baser metal, i. e., alloy. It is estimated that a gold sovereign would waste away completely in 8000 years. Iron is not so durable and it cannot be kept for long without deterioration and loss of value.</p> <p>(ii) Portability : The weight and bulk should be small as compared to its value, so that the cost of transportation is very small.</p> <p>(iii) Homogeneity : The quality will be the same throughout, so that equal weights will mean equal value.</p> <p>(iv) Divisibility and aggregatability : The precious metals can be divided and re-united, if</p> |
|---|---|

required, without further expense than that of the labour involved, and no loss of value takes place. The mechanical properties of gold and silver are admirable. They are capable of minute division and maintenance of a fractional value with accuracy.

- (v) **Malleability** : The metals possess the physical property suitable for coining and imprinting. They are not too brittle to break. They are soft enough, when heated, to retain the impression upon them for a considerable time, but not unduly soft to get distorted.
- (vi) **Cognisability** : The money material must be easily recognised or the people who do not see it too frequently are liable to be defrauded. This attribute makes counterfeiting difficult. Gold and silver are easily recognised for their lustre and brilliance and their heavy weight in comparatively small bulk.
- (vii) **Stability of value** : The article chosen as money should have a steady value. This is essential in order that money may serve the purposes of storing value and acting as a standard of deferred payments, and instability is the root of unacceptability. The value of gold and silver is more or less stable as their existing stock at any time is overwhelm-

ingly large (because of their indestructibility) and annual additions form an infinitesimal part of the total stock. The demand for them is also more or less constant. Thus a relative fixity of supply and demand produces a relative stability of value and changes in value that occur are so slow that they do not produce any suspicion in the money material.

- (viii) General acceptability: The money material must be such that it must be universally desired, otherwise it will have no value. Unless it has value it cannot measure values of other commodities and if it is not universally desired it will not serve as a medium of exchange. Gold and silver are always acceptable, partly because of the monetary purposes to which they are employed and partly because they are used for the arts, i. e. for ornaments etc.

Money is classified in three ways :—

1. Actual and ideal money. Actual money is money that actually circulates in a community ; it is also called 'current' money. Ideal money is money in which generally accounts are kept, so it is also called money of account. Sales take place in England in guineas (ideal money) instead of pounds (actual money).

Classification of Money.

though a guinea in Great Britain is looked upon as a piece of curiosity.

II. Metallic money and Paper money. Metallic money is commodity money. Gold and silver are generally used, though other inferior metals like copper, bronze, nickel are used for subsidiary coins. Commodity money is subject to free coinage and its supply is automatically adjusted to the demand.

'Paper money' is generally applied to bank notes and government notes and not generally to cheques and other credit instruments as these latter have not as wide a circulation as the former. Paper money is of three kinds :—

- (a) Convertible paper money, i. e. paper money converted, on presentation, into gold or silver, a metallic reserve being kept to ensure its convertibility ; it is also called redeemable or fiduciary paper money.
- (b) Inconvertible paper money, it is so called as the holder of such money has no right of conversion into metallic money. It is also called "fiat" money or irredeemable paper money.
- (c) Representative paper money which is a warehouse receipt certifying that an equivalent amount of coin or bullion is withdrawn from circulation and deposited in the

government treasury. The American gold and silver certificates are of this character.

III. Standard money and token money :

Standard money is money with which all debts are legally discharged and to whose value the values of all other kinds of money are referred for determination, but it may not be coined. Token or subsidiary money consists of coins whose face value exceeds their real or intrinsic value. The coinage of token money is restricted to government only and private persons have no right to demand that the mint will exchange their bullion for coins.

Functions of Money :—The principal functions of money are :—

(1) Money serves as a medium of exchange. By placing the part of a third commodity or intermediary, money helps in the facilitation of exchanges. All inconveniences of barter are got rid of as soon as money comes into use. Hence universal acceptability must be one of its essential attributes.

(2) Measure of value. This function is really inseparable from the first. Money enables one to measure the values of other things and therefore to institute a comparison in point of their relative values. Money thus acts as a common denominator of value and when value is expressed in money it is the price, and price is simply the amount of money which a thing

fetches in exchange. These two functions are described as *essential* functions of money.

The following three functions are described as the *derived* functions of money—

(3) Standard of deferred payments. In cases of postponed payments, i. e. payments not made cash down, but made at a future date, what is most needed is that there should be no changes in the value of money between the present and future dates. Thus a lender lending money to-day and receiving payment in future must be assured that the purchasing power of money in the two dates must remain approximately the same. Otherwise, the relative position of debtor and creditor will be upset and either the debtor will gain and the creditor will lose or *vice versa*. In the interest of equity, what is desirable is that the relative position of debtor and creditor should undergo no change.

(4) Store of value. If a man wants to lay by a fund of wealth, it is essential that it will not lose its value during the time of storing. And money is capable of being stored without loss. It never becomes second-hand, it loses nothing by keeping.

Prof. Walker has objected to this being regarded as a function at all. According to him, money is what money does. Money which is withdrawn from circulation is as good as gold lying in an undiscovered gold mine. The reply to this is that Walker has failed to distinguish between a hoard and a store. All storing

is not hoarding. Money buried underground, never to see the light of day, is no function of course. But the money lying in a bank vault is a store and renders an economic service as it helps to promote the circulation of bank notes and other credit instruments.

(5) Transfer of value: Money represents generic value and to transfer value is to transfer generic value. It is because of this function that all forms of wealth and capital are capable of being transferred in a mobile form.

The next few functions of money are called *contingent* functions :

(6) Distribution of social income. The incomes of the productive members of a society are obtained in money. Thus the landlord gets his money income as rent, the labourer as wages, the capitalist as interest and the organiser as profit.

(7) Equalisation of marginal utilities in expenditure. Every earner wants to adjust his expenditure in money such that he will derive an equal marginal utility in respect of each item of expenditure.

(8) Money serves as a basis of credit instruments. Money itself may not be used as a medium of payment. It is used to bring into existence other media of payment and money is ultimately used when the other media have to be offset.

(9) Finally, money imparts a general form to capital.

Definition of Money :—

It is rather difficult to give a formal definition of money. Some mean by 'money' all media of exchange, i.e. those that effect exchanges. This view will include in the definition metallic money, paper money, banker's drafts, stocks etc. This is, however, taking too inclusive a view.

At the other extreme, there is a view which limits the definition of money to coins of intrinsic value, i.e. full-valued metallic money. This, again, is taking a too exclusive view.

The proper view is to adopt a *via media* course and understand by money those media of exchange which fulfil two conditions, namely,—

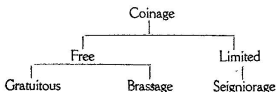
- (1) Universality of acceptance so that it can serve as a medium of exchange and measure of value;
- (2) debt-paying potency, i.e. a power to pay off debts as required by law.

Coins and Coinage :—

Use of coins is not as old as use of the precious metals. At first, the money consisted of ingots which merchants accepted by weighing and assaying. This was inconvenient in ways more than one and the remedy lay in using shaped pieces of gold and silver with a certification of their weight and purity. The two requisites of a coin are uniformity of weight and fineness or composition in coins.

Coinage is a government monopoly as the ordinary person cannot test the purity of every coin he receives. But if the coin comes from the government mint, he takes it unhesitatingly; also, if a profit is to be made from coinage, this should go in fairness to government as representing the corporate life of the people. Various devices are adopted to stop counterfeiting. The edges of a coin are milled round so that bits of the metal may not be chipped from outside.

In the conversion of bullion into coin some cost is involved. Where holders of bullion have the right to present it to the mint for purpose of coinage, **Charge for Coinage.** coinage is said to be free. If coinage is restricted to government account only, it is 'limited'. If the work is done without charging from the bullion-holders the cost of conversion, coinage is free and gratuitous. If a fee exactly equal to the actual cost is charged, the charge is called 'brassage'. If the charge exceeds the actual cost, it is called 'seigniorage'. This is possible only under limited coinage.



Money is said to be Legal Tender as the tender or offer of it by the debtor to the creditor, under

the law, constitutes a valid discharge of obligations.

**Legal
tender
money.**

The standard money is usually legal tender for an unlimited sum, while the subsidiary money is legal tender up to a limited amount.

In England, gold coins are legal tender to any amount, silver coins up to a limit of 40 shillings and copper coins up to 13d. The Bank of England notes are also legal tender for any amount.

Coins of the same denomination shall be uniform in weight and purity. But it is difficult to attain this uniformly and so all governments allow a slight variation from the legal definition as fixing

**Tolerance
of the Mint.**

the weight of coins. The "remedy-allowances," within narrow limits, are known as

the Tolerance of the Mint.

The coins are not made of the purest metal. It is tempered by the admixture of an alloy and purity or fineness of a coin means the proportion of the pure metal to the alloy which is contained in a coin. The English sovereign is $\frac{1}{12}$ fine, that is, of twelve parts, eleven parts are pure gold and one part is alloy.

Gresham's Law :—This law is associated with the name of Gresham, a financier to Queen Elizabeth and the simplest statement of the law is : "Bad money tends to drive out good money out of circulation." The exposition of the law is : "If coins of the same metal, but of varying weight and quality, circulate together at the same nominal value, the worse coins

will tend to drive the better from circulation, but the better will never drive out the bad."

This statement sounds like a paradox as the self-interest of the people leads them to use the better commodity and reject the worse one. But the explanation of the paradox is that the holder of money is the seller of money. All internal payments may be effected with either good or bad money, but on certain occasions it is the good money alone that can be used. Hence the picking and culling of the good money and setting it apart for the purpose for which the bad money is of no avail.

Good money is displaced in three ways:

- (1) Hoarding of better coins ;
- (2) Melting them down ;
- (3) Exportation abroad.

It is only when certain conditions are fulfilled that

Limitations to Gresham's Law. Gresham's Law operates. The limitations to the law are :—

(1) The law operates only when the sum-total of good and bad coins is in excess of the country's need for currency.

(2) If the use of the bad money is against custom or public opinion, far from it displacing good money, it may not be used at all.

(3) One experience of the war is that bad money, if it is bad up to a certain point, will displace good

money. But if it is awfully bad (for instance, paper marks in Germany, during the period of the war were so horribly bad that 20 marks in paper money which should have been equivalent to £. 1 sterling, required in 1923, 20,000,000,000,000 marks in paper for £. 1) it does not drive out good money, but is itself driven out by the good money.

Kinds of Paper Money :—

It has already been stated that paper money is of three kinds, namely, convertible, inconvertible and representative paper money.

By convertible paper money is meant notes issued by an individual, corporation or public authority. Promise to pay the value of the notes in legal tender specie instantly and without demur or delay must be made valid. If paper money is convertible in anything other than standard metallic money (e. g. payable in goods, land etc), it is not convertible paper money in the strict sense.

Convertible paper money—what convertibility means.

Generally, such money is put into circulation by banks. The issue may also be government issue, such as U. S. notes or Green-Backs issued by the American Government or the currency notes in India issued by the Government of India. The advantages of Government convertible paper money to the people are :—

- (a) Saving of gold and silver ;
- (b) Portability of paper money.

The advantage to the Government is that it is in a position to secure the revenue without resorting to taxation (but the Government has also to keep a metallic reserve for securing the convertibility of the paper money). In order that notes may not be issued in excess (that is, over-issued) - and thus jeopardise the chance of conversion, some limitation is placed by law as regards the amount of Government paper money issued. Convertible paper money may also be bank notes, the issuing banks promising to pay in legal tender money the amounts specified in its face.

The greater the solvency of the bank and the popularity of the bank notes, the fewer the occasions for presenting the notes for conversion.

For several bank notes (convertible) have been preferred to Government convertible paper money. Experience is against Government issues as the temptation of increasing public revenue is so strong that in times of stress the Government resorts to the issue of more and more of such money, until it degenerates into inconvertible paper money. In short, there is a greater likelihood of Government notes being issued in excess than of bank notes. On the other hand, bank notes are generally elastic in supply, that is, an increase or decrease in quantity in response to the currency needs of the country is easily effected.

Inconvertible or Irredeemable paper money consists of notes which are not converted into specie. The

issuer may be either Government or Banks. Historically speaking, such paper money was originally convertible, but later on reduced to inconvertibility through excessive issue. Sometimes, of course, inconvertible paper money is deliberately issued, there being no chance of its being redeemed in specie. Inconvertible paper money is also called fiat money.

Inconvertible paper money.

The advantages of irredeemable notes are :—

Benefits of Inconvertible paper money.

(1) Economy in the use of gold and silver.— Gold and silver are expensive metals and to the extent their place is taken by paper money, considerable economies in their use are effected. Money is only a means to an end and if the object, namely, effecting sales and purchases, is achieved by non-metallic money, there should be no wastage of precious metals which may be set free for really productive purposes. It is for this reason that "paper money has been likened by Adam Smith to a waggon way through the air, the use of which leaves the land under it available for raising produce to satisfy human wants".

(2) Paper money saves a considerable amount of wear and tear to which metallic money is subjected.

(3) Paper money is a more portable medium of exchange than metallic money.

(4) The fiscal advantage to the Government is

also not a negligible factor. The issue of such money enables the Government to tide over the financial difficulties and avoid borrowing money at high rates of interest.

The evils of inconvertible paper money are many :—

(1) Its value is not at all stable. There is great danger of excessive issue and few countries have been able to resist the temptation to over-issue. The value of paper money with no metallic backing is bound to be extremely fluctuating.

Dangers of Inconvertible Paper Money.

(2) The authorities submit to the temptation to overissue and over-issue leads to inflation of prices. "Additions to the supply are dependent on the caprice, or the policy, of a Government". All classes of people suffer, but the sufferings of the poorer classes are much greater for the higher prices of the necessities of life affect them more than the rich.

(3) Rising prices bring speculative transactions into being and wage-earners suffer as "prices go up by the lift, but wages by the stairs". The speculative and feverish activities introduce a demoralising influence into a community.

(4) According to the fluctuations of the inconvertible paper money either the creditors or the debtors are defrauded.

This kind of paper money is simply a certificate of deposit, certifying that metallic money of equal amount has been deposited with the issuer of the paper money and will be returned to the holder as soon as the paper money is tendered. It is very convenient to use representative paper money, specially when large sums have to be handled. It may be issued by banks as well as by Governments. A great volume of the paper circulation in the U. S. A. is composed of these coin certificates known as gold and silver certificates. These are not legal tender in America, but are receivable in payment of Government dues. The National Banks in the American States may also treat the representative paper money as part of their lawful reserve.

CHAPTER 11

Exchange (Contd.)

Contents :—Value of Money. Quantity theory of Money. Bimetallism. Index Number.

Value of Money :

The value of any thing is the amount of any other thing for which it can be exchanged. The value of money is determined just like the value of any other article. Its value fluctuates just like that of all other commodities. Either money increases or decreases in quantity or the quantity of other things increases or decreases with the result that prices rise or fall. If the supply of all commodities except money (that is, the volume of trade) remains stationary, and the quantity of money increases, prices will go up all round. And conversely, if the quantity of money decreases, prices fall all round. The same results follow if the supply of money is constant and the supply of goods rises or falls.

Quantity Theory of Money :

The value of money, i. e., its purchasing power is correlative to the prices of articles. When the value of money is high, the level of prices is low and *vice versa*. The quantity theory of money states that the price-level is governed by,—

(1) the supply of money and its velocity of circulation ;

(2) and by the demand for money which arises because of the demand for goods and services (that is, by the volume of trade). Hence, if the demand for money remains the same (because of the fixity of the volume of trade) an increase in the quantity of money causes a corresponding increase in prices and conversely. An increase in the quantity of money is occasioned either by increasing discoveries of gold and silver mines or increasing use of paper money, cheques, notes etc. which are undertakings to pay gold or simply by an increase in the rapidity or velocity of circulation of money.

If we assume a state of things when,—

(1) the volume of trade and its turn-over remain unaltered ;

(2) money is used solely for effecting exchanges, money being neither hoarded nor melted for use in the arts ; there being no barter or postponement of payment in medium of exchange ; a doubling, trebling or quadrupling in the quantity of money must double, treble, or quadruple the price level.

In spite of the objections that have been taken to the Quantity theory of money, rightly stated and properly qualified, it is a truism and perfectly squares with facts. When the sequence between cause and effect is obliterated, the explanation is that the assumptions previously made are not operative and to that extent there is some modification of the result. Thus, in the

sixteenth century prices rose very high in America because of the discovery of the American silver mines. A similar rise in price from 1896 to 1914 was the outcome of the augmented production of gold. But the gold discoveries of California and Australia in 1849-50 did not lead to a proportionate rise in price, partly at least because of the increased demand for money owing to an increased production of goods.

Cost of production theory of money :—The theory that the value of money depends upon the cost of producing specie is opposed to the Quantity theory of money which states that the value of money depends upon its supply in relation to the demand. There is, as a matter of fact, no correspondence between the cost of the precious metals and their value because of certain circumstances attaching to them, particularly, gold and silver. These are :—

- (1) The durability of the precious metals ;
- (2) the peculiar fascination for mining which has resulted in a disproportionate outlay of capital and labour to the specie extracted ;
- (3) irregular discoveries from new sources.

Bimetallism :

It is a system of currency under which coins of two metals, usually gold and silver, remain in concurrent circulation and fulfil the following conditions :—

- (1) Both coins are unlimited legal tender coins ;

(2) free coinage of both metals ;

(3) maintenance of a legal ratio between the two coins (called mint ratio).

The advantages claimed for bimetallism are :—

Advantages (1) It enlarges the stock of standard money and all fluctuations in prices of goods are greatly reduced. The larger the stock of money, it is argued, the smaller will be the proportionate changes in prices, caused by increased supply of money or new demands for it. Bimetallism thus conduces to stable prices.

(2) Bimetallism will provide for a *rise in price* level as the supply of money, coming from two sources, will be greater than under mono-metallism. This will stimulate business enterprise. It will also afford a great relief to the debtor class to repay their debts.

(3) Bimetallism conduces to a more stable ratio between gold and silver.

The arguments that have been adduced against bimetallism are :—

Disadvantages (1) The difficulty, nay, impracticability of maintaining the mint ratio in the event of its divergence from the market ratio, the latter ratio being always liable to fluctuation.

(2) Whenever the two ratios differ from each other, Gresham's Law operates and the over-valued money (that is, bad money) drives out the undervalued

(that is, good money) from circulation, and the country is reduced virtually to monometallism.

(3) As regards the contention that bimetallism conduces to a stability in price, the verdict of history is against the bimetallists.

No single nation is strong enough to influence the market for the precious metals so that the market ratio may correspond to the mint ratio.

**Remedy—
International
Bime-
tallism.**

International bimetalism, i. e. a strong combination of nations to adhere to it by agreement is, however, a remedy against the operation of Gresham's Law. But nations have found it difficult to come to an agreement in so vital a matter and the agreement has never been secured. Nations, therefore, have been driven to the necessity of adopting a single gold standard.

Measurement of changes in the value of money :—Index number :

As the value of money is measured by the quantity of other things which a unit of money purchases, it varies inversely as the general level of prices. If the prices of different commodities rose or fell simultaneously, it would be easy to ascertain the amount of change in the general price level and in the value of money. But the price of each article is subject to independent variations of its own. Prices thus take a contrariwise direction, some prices rise, some fall and some remain constant. Hence, the problem of

determining the general price level is difficult. The best expedient for the purpose of measuring the **Index num-** variations in the purchasing power of **ber.** money is the "index number" and the number is constructed in the following manner :

The year chosen as the starting year is called the base year and the actual prices of certain commodities are recorded, the prices being called the base prices. Each of these prices is recorded as 100. In a subsequent year to which the comparison in prices relates, the actual prices of those very goods are recorded and then stated in the form of a percentage. The following illustration shows how the number is constructed :—

| Base year 1910 Base Prices | Expressed as 100 | Prices in 1920 | Percentage to base |
|-------------------------------|---------------------|------------------|-----------------------|
| Rs. a. p. | | | |
| Rice per maund ... 4 0 0 | 100 | Rs. 3 per maund | 75 |
| Coal per ton ... 3 6 0 | 100 | Re. 1/8 per ton | 50 |
| Oil per seer ... 0 6 0 | 100 | " 0/4 per seer | 66, say |
| Fish per seer ... 0 10 0 | 100 | " 0/10 per seer | 100 |
| Salt per seer ... 0 1 0 | 100 | " 0/1/6 per seer | 150 |
| 5 | 500 | 5 | 441 |
| Arithmetic mean : | 100 | | 88.2 |

The index number for 1910 was 500 and for 1920 441. Reduced to arithmetic mean the index numbers respectively are 100 and 88.2. The average for the base year is always 100, the average for the subsequent year being a percentage of the base average. In this illustration, the index number for the year 1920 shows (or rather, indicates) a fall in prices of 11.8 per cent. An index number represents the price of a chosen good (or goods) at a particular date with which to compare the price of that good (or goods) at a subsequent date.

The utility of the index number and its serviceableness depend upon the adoption of certain precautions and these are :

**Limitations
of Index
number**

- (a) The larger the number of articles selected, the less will be the chances of error which arise from the sudden changes in the price of any single commodity.
- (b) Whether the wholesale or retail prices should be used will depend upon the nature of the economic enquiry.
- (c) The averaging may be done by the adoption of the arithmetic, geometrical or harmonic mean or by the use of the median.
- (d) The method of weighting the articles has also been adopted as an improvement, by taking account of the relative importance of the different articles. Clearly, it is unfair to allow a rise in the price of, say, salt offset

a corresponding fall in the price of, say, rice. Thus, if a society, as a whole, spends 4 times as much of its income on rice as on, say, oil, it may be counted as if rice were four articles and oil one article.

Appreciation and Depreciation of Money :

An appreciation of money takes place when it changes to a higher value (i.e. when prices fall) and a depreciation takes place when it changes to a lower value (i. e. when prices rise).

Business activity receives a set-back, creditors gain and debtors lose, wages fall and some labourers are unemployed. There is a contraction of credit. Men with fixed income gain. The National debt becomes a source of greater burden to the tax-payers.

Business enterprise is stimulated as profits rise. Money wages also rise and unemployment of labour is gradually reduced. But men with fixed income lose; the burden of taxation presses less heavily on the people.

**Effects of
Apprecia-
tion or fall-
ing prices.**

**Effects of
Deprecia-
tion or ris-
ing prices.**

CHAPTER 12

Exchange (Contd.)

Contents :—Banking. Evolution in banking. Functions of a modern banker. How deposits are made. Clearing House. Difference between deposits and notes. Meaning of Credit and Credit Instruments. Credit and Capital. Credit and Prices. Merits and dangers of Credit.

Banking :

A bank is an establishment which lends money and other media of exchange to individuals and to which also individuals entrust money and other media of exchange when these are not required for immediate use. A banker is a person who borrows money from others and lends most of it again to people who require loans.

Evolution in banking :—Historically speaking, the practice of borrowing by a bank did not originate on the bank's initiative. In the ancient days of civil insecurity, rich people were concerned with the safe keeping of their money and the goldsmiths of those days were the people to whom the surplus funds could be entrusted. And this for the simple reason that the goldsmiths were solvent and honest men and had to keep strong safes for housing jewels etc. The depositors regarded this guarantee of safe-keeping (so long the money was

not wanted back) and a prompt withdrawal of funds as useful services rendered. The depositors naturally paid a small commission on the funds placed as deposit.

The next stage in the evolution came when the goldsmiths found that only a small proportion of the money deposited with them was withdrawn at any time and that cases of withdrawal and fresh deposits went hand in hand. Instead of, therefore, locking up in the safes such sums of money as were not demanded at the counter, the goldsmith was disposed either to lend or invest same in his own business. The money that would otherwise remain idle had had a profitable utilisation. This augmented the goldsmith's private earning and so he was naturally looking with complacency upon the prospect of increased deposits. And the more money he could attract, the more could he lend and thus enlarge his profits. The necessary encouragement to the investors was given when the goldsmith ceased to charge the commission for the identical services rendered.

And the final stage in the evolution was reached when the goldsmith not only not charged any commission, but began to pay an additional sum in return for deposits kept with him and not yet withdrawn. The additional amount paid is called interest. Thus, it came about that instead of a depositor paying the banker for looking

after his money, the banker paid the depositor for the privilege of obtaining his money and being able to utilise it. And this is what a modern banker exactly does. He borrows money and pays interest to the depositors. He also lends money on interest and takes care that the rate of interest in the latter case is greater than in the former, so that the difference in the two rates of interest constitutes the banker's profits.

Functions of a modern banker :—A modern banker performs two functions :—

(1) He acts as an agency for the collection of savings and for investment. This takes the form of acceptance of deposits and payment of interest on these so long they are kept invested.

(2) The banker next proceeds to lend money on interest. He charges a higher rate of interest so that a margin may be left between the rates at which he borrows and lends. The loan usually takes the shape of a discount of a bill of exchange having a few months to run and the operation is simply known as discount. Thus, deposit and discount are the two essential functions of a banker.

The banker's profit is not as high as it might theoretically appear. He is not free to lend out the entire volume of deposits. A certain sum of money has to be kept as reserve and the amount so kept is 'idle' or 'dull' money, i. e. money that earns no interest. Evidently, the banker is tempted

**How does
a banker
earn profit?**

to minimise his reserve so that as large a sum as possible may be available for investment. Hence, there is a conflict of interest as regards the management of the reserve. And in determining the sum to be so kept (i.e. the proportion between reserve and liability), the banker is guided by his prudence, sagacity and experience.

The next business of the banker is to lend. But whom to lend and against what security? The investments of a banker will be liquid assets, i.e. assets of a quickly realisable character. The ideal loans will be short-time loans, e.g. day to day and week to week loans. But the entire loanable funds may not be disposed of in these ways and so the banker has to devise other ways of investment.

The next best investment is the discounted commercial paper. The bank makes loans with collateral security, i.e. by pledge of property which can be easily sold in case the repayment of the loan is delayed. The bank also advances against securities which are easily salable; it sometimes invests in "outside paper" etc. The general principle to be observed in all cases of loans is that in case the banker is in need of cash, the assets against which loans are made must be liquid enough to be converted into "liquid gold". The bank reserve acts as a safety valve and if banks have more reserve they lend more freely by lowering the discount rate. Conversely, when the reserve is small compared with the demand for it, banks draw in.

(3) Another function which, at one time was regarded as essential but now subsidiary, is the function of note issue. The bank notes are the bank's own promises to pay and once these notes are issued, they form a part of the circulating medium. But most of the civilised countries have adopted a centralised system of note-issue and so, except the Central Bank, other banks are precluded from issuing notes.

The banks may be prevented from note-issue, but they have got hold of an outlet for development of banking in the creation of cheque currency. Just as notes are issued by the banks, so cheques are drawn by the customers against current or drawing accounts kept with the bank. The limits to the drawing of such cheques are the amount of funds held by the banker and the amount of the credit which the banker is willing to grant the customer on loan account.

How deposits are made :

Many persons think of a deposit as cash left with a banker. Historically, of course, all deposits began with specie entrusted to a bank and even to-day salaried persons and men of the leisure class do place their surplus cash with banks as deposits. But a large part of the deposits in the commercial banks does not arise in this way. The deposits are created by the banks themselves. In essence, there is no difference between a bank lending by notes or by deposits. When a bank lends, it lends usually not its money, but its credit. If the banker

has power to issue notes and his credit is good the notes, which borrowers are supplied with, get into circulation. Exactly the same thing happens when a bank lends in the form of deposits. This time the borrower is credited with a "deposit" of the amount of the promissory note (the common transaction is the discounting of a note). He then has got a right to draw on the bank as if he actually placed cash with it. This is usually done through a cheque directing simply the bank to make payment to any person specified in the cheque. The borrower, soon after the loan is made, will draw cheques against it, but he usually keeps some balance with the bank as a reserve to meet contingencies. These deposits are thus like bank notes and form a part of the circulating medium. This portion of the currency is called chequeable currency.

How cheques are offset through the Clearing House :

Assume a case where all persons bank with the same bank and all payments are made by cheques on the bank. In such a case, all use of money could be safely dispensed with. Suppose, there are two persons, K and L banking with bank B, their respective deposits being Rs. 1000/- and Rs. 2000/-. Next suppose, K makes a payment of Rs. 500/- to L by a cheque which L deposits with the bank. What the bank B would now do is to credit L with the value of the cheque. L's deposit will now be Rs. 2500/-. Deduct so much from

the account of the drawer of the cheque, K, and K's deposit now becomes Rs. 500/-, (instead of Rs. 1000/-). Thus, by a mere adjustment of the deposit balances the payment is effected and no money is used for the purpose.

Next, suppose there are two banks B and D, and K has a deposit of Rs 1000/- with bank B and L a deposit of Rs. 2000/- with bank D. K makes a payment of Rs. 500/- to L by a cheque on his own bank which L this time deposits with his bank D. D has now a cheque deposited with it for collection drawn on the other bank B. If two other persons had a similar transaction for Rs. 500/- between themselves, this time the cheque coming to bank B for collection and being drawn on bank D, the position is simplified. The banks B and D offset their claims without using money at all. Suppose, now the second cheque is worth Rs. 300/- and not Rs. 500/-. In that case D's claim on B is for Rs. 500/- and B's claim on D is for Rs. 300/- and the difference, i.e. of Rs. 200/- need be paid by B to D. This difference may not even be paid, but a running account kept from day to day and the balance one day will be in favour of one bank and some other day in favour of the other bank. In the end, an equality may be reached. Even if no equalisation is possible, it is only* the balance that need be paid by one bank to the other ; meanwhile, vast sums of money have ceased to be used through mere offsetting.

Finally, assume that there are any number of banks

and any number of parties. The same process is in operation. Every day each bank will get a bundle of cheques for collection from the others, just as the others will also have cheques drawn on this bank for collection. The same offsetting of chèques against one another will be now effected through the organisation of the clearing house. This is an expedient for the offsetting of cross obligations in the form of cheques. Each bank sends at the end of the day's transactions a number of cheques which it has received against other banks; it will also have to meet all cheques drawn against it. After the totals are offset, the balance, be it a credit or a debit balance, must be realised or paid in cash. But this is also not generally done. If all these participating banks deal with the country's central bank, each bank keeping a deposit account with this central bank, the clearing house balances may be settled by the debtor bank paying to the creditor bank by a cheque on the central bank. The central bank will make a necessary adjustment in the deposit balances, crediting a clearing banker with an amount of money and debiting a corresponding amount from the account of the other clearing banker.

In this illustration, suppose the banks B and D have a running account with the Central Bank X, B's deposit account showing Rs. 600 and D's Rs. 1000. B pays D a cheque on bank X for Rs. 200. The net position of B and D now in the central bank's deposit ledger is B's account showing a deposit of Rs. 600—Rs. 200, i.e.,

Rs. 400 and D's account showing Rs. 1000 + Rs. 200, i.e., Rs. 1200.

Difference between Deposits and Notes :

Although both deposits and notes are evidences of the banker's liability to pay (i.e., both are demand obligations), the differences between them are marked :—

- (a) Notes remain for a long time in circulation, whereas a deposit, going into circulation as a cheque currency, is sooner or later returned through the clearing house.
- (b) A cheque, like a note, may undergo changes of hands, the payee endorsing it to another and so on ; but the cheques are drawn for odd sums and so the chance of their being indefinitely in circulation (like a note's which is for a round sum of money) is meagre.
- (c) A bank has to meet oftener its demand obligations in respect of deposits than in respect of notes.

Both depositors and note-holders are creditors to a bank and the bank is under an obligation to pay in legal tender money back to both. But the depositors are voluntary creditors and note-holders are involuntary creditors of the bank.

Notes remain indefinitely in circulation and whoever happens to be a holder of a note at any time is a banker's creditor to the value of the note. Hence, in the event of a bank failure, although both depositors and note-holders lose, a greater injustice is done to the latter than to the former. And it is for safeguarding their position that special legislations have been passed in order that the quality of notes may be improved and notes placed on a footing of absolute security. In countries, with a centralised system of note-issue, the notes are issued under conditions of monopoly, note-issue being hedged in with restrictions. In other countries, under the decentralised form, restrictive laws have also been passed. In some countries, a definite proportion of the value of notes issued is kept in money and placed with the government. Still another way is to give the note-holders a prior lien on the assets of a failed bank.

Why special legislation is passed to safeguard the interest of note-holders.

Credit and credit instruments :

Credit comes from the Latin word, *credere*, which means 'to believe'. But the word is used in different senses. It may be defined as a confidence that a borrower will give back money or a substitute of money at a future date. This confidence rests ultimately in a man's character, i.e., integrity and his status in life, i.e., ability to pay. It is because a man *has* credit that he is in a position to

Meaning of credit.

obtain possession of wealth or services in exchange for a promise of a future payment or return. In highly developed countries of the world, about 90 per cent of the transactions are done with credit, i.e., 90 per cent of the people are relied upon as regards future payment. Besides personal character, credit transactions are protected by law and the creditor can enforce his legal right against the debtor. A person is said to give credit when he lends money in the expectation that it will be paid back to him in future. The two elements, therefore, involved in credit are confidence and time.

As in credit transactions a promise is given to pay at a future date, the promise is either verbal or documentary. In the latter case, the promise appears on paper and the diverse forms in which the promise exists are collectively known as credit instruments. The following is a list of the different kinds of Credit Instruments :—

Credit Instruments.

- (a) Bank notes are mere promises to pay their face value in legal tender money (unless the notes themselves are legal tender). The status of the bank is the only consideration and it is for this reason that the issue of bank notes is carefully regulated by government.
- (b) Government notes are similar to bank notes, the issuer being the state instead of a bank.
- (c) Cheques are bills of exchange drawn on a banker, payable on demand.

- (d) Bill of exchange is an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand or at a future date a certain sum of money, to or to the order of a specified person or to bearer.
- (e) Promissory note is an unconditional promise in writing made by one person to another signed by the maker, engaging to pay on demand or at a fixed date in future a sum of money.
- (f) Post office orders, money orders and sundry other credit evidences, such as, stock certificates, mobilization certificates (i.e., orders for delivery of goods) etc.

Credit and Capital :

The question that is frequently raised is: is credit capital? Credit, it must be remembered, is not an agent of production like land or labour or capital. It cannot create wealth, but what it does is to help in the continuance of productive operations. Wealth may be owned, but may not be effectively utilised. The mechanism of credit permits the wealth being transferred from those who are least able to use it productively to others who make its greatest utilisation. Ricardo has said that credit does not create capital, it only determines

by whom that capital shall be employed. Credit simply converts wealth, i.e., latent capital into kinetic capital and as such has a great social value. And without credit few of the great enterprises of the present day world could be carried on. None the less, a credit instrument, say, a bank note, should not be regarded as capital. A bank note is not capital, but it represents capital. It represents house, a machinery, a factory, raw materials etc. which are capital. Credit facilitates their transfer and it is by effecting such transference that all forms of industry are quickened.

Credit and Prices :

Does credit influence prices at all ? If it does, is its influence of the same kind and degree as that of money ? Different economists have answered the question differently. Thus Mill argued that because credit is purchasing power, it influences prices exactly as money does. Money and credit are thus identified by Mill, but here the essential nature of credit is lost sight of. In all operations conducted with money, the transactions are completed, the money-holders and goods-possessors simply changing places. In a credit transaction, the article, of course, is transferred from the producer to the buyer, but it does not bring the transaction to a termination (as in the case of monetary transactions), as the debt incurred in a credit purchase must be paid in the future. Hence, credit is not simply a purchasing power, but of liquidating power,

It is for this reason that the American economist, Walker, has argued that credit has no influence at all on prices. His contention is that the general level of prices is determined by the amount of and demand for, the standard medium of exchange, that credit transactions occur on the level of prices fixed to such standard medium of exchange and that the credit transactions cancel one another without the use of money.

The truth lies midway between these two opposite views. If a credit instrument, say, a bank note, had been a perfect substitute for money, it would influence prices exactly as money does. But the banker must have to keep a certain amount of money as reserve, as confidence is never complete and can be fostered by metallic reserve. And the amount thus reserved measures the real influence of credit on prices. It is not denied that a purchase on credit causes an increase in the demand for goods and therefore leads to a rise in prices. But credit is not liquidating power to an equal extent. An example will clarify the matter. Suppose, previous to the use of credit instruments, there were 100 units of goods and 100 coins and the average price of each article was 1 coin. Now suppose, 100 units of bank notes are injected into circulation. The purchasing power is, of course, increased by 100 units of bank notes, i.e. credit instruments (which are promises to pay in the future). But when the future ripens into the present, the liquidating power must be supplemented by the reserve. Assume that 50 units of coins are kept

in the bank reserve for securing the conversion of 100 bank notes. The total circulating medium is now 100 notes + 50 coins now left disposable for actual cash transactions (50 coins being kept in the reserve). The credit instruments tend to raise prices, the metallic reserve tends to lower prices. But as the advantage of credit lies in using more credit instruments than the reserve, the result is that credit raises prices not to its fullest extent, but up to a certain point only. In the above illustration the total circulating medium consists of 100 notes and 50 coins and there being 100 units of goods, the average price is $1\frac{1}{2}$ units of money, i.e. the price level is increased not by cent per cent but by 50 per cent.

Merits and dangers of credit :

The economic advantages of credit are stated below:—
Advantages of credit.

(1) Credit helps in the cumulation of small sums of money (which would otherwise remain unutilised) into centralised reserves applied to productive purposes.

(2) Credit creates a motive for accumulation of wealth.

(3) Credit makes mobile the vast stores of wealth of a community and thus stimulates productions.

(4) Credit economises metallic currency and substitutes a cheap and more convenient medium of exchange.

(5) Carefully regulated credit minimises fluctuations in prices and makes trade conditions steady.

The greatest danger of credit lies in its liability to over-issue. "There is always a possibility that more notes will be issued than are necessary and healthy, or that more bank advances will be granted than are safe to the community." And over-strained credit brings commercial crises and panics. Demands are abnormally stimulated, prices raised and eventually commercial panics precipitated. An inflation of credit instruments leads to over-trading, people are lured into fictitious profits which really are not as much as they appear to be. All sorts of speculative enterprises come into existence, the entire community is caught by an infection of the fever of speculation, but they rest on a weak foundation. Prices are high and to sustain the high price more money is called for. People resort to excessive business and over-borrow. Finally, comes the shock, a bad failure, a financial panic.

Services rendered by a banker to a community :

The banks are useful institutions and render important services by way of promotion of industry and commerce of a country. The distinct services they perform may be enumerated below:—

- (a) Banks encourage savings, thrift, economy and investment.

- (b) They facilitate exchanges of goods and create a general sense of security.
 - (c) They are instrumental in transferring the surplus wealth of individuals and districts to people who are likely to make an efficient use of it.
 - (d) By a careful regulation of credit instruments which banks grant for promotion of industries, commerce, shipping etc., they check speculation and prevent crises from happening.
 - (e) By injecting credit currency into circulation, banks add to the circulating medium of exchange, economise the metallic currency and cause a country's supply of currency to become automatic. It is by providing for an elasticity of currency, that they help a nation forward in their economic development.
 - (f) Finally, the banks act as safe deposit agencies for savings, securities, jewellery etc. They finance the vast volume of a country's foreign trade and afford every facility to merchants and travellers who are immensely benefited. Referring to the adequate facilities that obtain in Scotland, Mc. Leod has said, "banks have been to Scotland what the Nile has been to Egypt."
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CHAPTER 13

Exchange (continued).

Contents :—International Trade. Its origin. Values in International Trade. Advantages and disadvantages of international trade. Balance of Trade Protection. Arguments in favour of Protection. Free Trade. Arguments in favour of Free trade.

International Trade ;

International trade is trade carried on between the people of different countries. The reason underlying

Causes of international trade. international or foreign trade is the same as that regarding internal or domestic trade. Suppose, the two localities of a country are

differently endowed by nature, one being rich in mineral deposits and the other specially fitted for agriculture. It is now to the interest of both localities, each, to specialise in one product and exchange each others' products for satisfaction of mutual wants. In

Natural differences in different countries. the case assumed, the agricultural locality cannot, even if it liked, produce mineral products. The mining area may produce agricultural goods, but less effectively (i.e.

with greater difficulty) than the mineral products. An application of this principle, as between different nations, is the explanation of the origin of international trade. If the two localities are supposed to be two

different countries, the position remains unchanged. Thus, tin is mined in Wales, but not in the U. S. A. Again, America can produce wheat at a cheaper price than the Welsh can. Hence, trade opens up between U. S. A. and Wales to the mutual advantage of both countries. Other instances may be multiplied. The products of the tropics and temperate climes are exchanged with one another on the same principle.

In the above illustrations has been assumed a natural difference in the productive capacities of the trading countries. Exchanges may also be profitably carried on when no such natural differences exist. Theoretically, each country is capable of producing either the one or the other article. But simply because it has taken to the production of one of the two and has specialised and thus all the economies of concentrated production are being availed of, its production of this article is more effective than another which, for similar reasons, might be equally effectively produced in the other country. Here, exchanges are conducted between the countries also on advantageous terms. England buying wheat from India and India buying iron manufactures from England serve to illustrate the principle. Not that England cannot grow wheat in her own soil, or India cannot be self-supporting in respect of iron and steel products, but that both countries want to avoid waste

Efficient Production not for natural superiority, but for long habitation and economies of production.

of energy and capital by concentrating on less profitable industries.

Still another reason explains the origin of international trade. Suppose, a country X can produce goods A and B more cheaply than country Y. Here, country X has an absolute advantage over country Y in respect of both goods. But X may find that it has a greater comparative advantage in the production of A than in the production of B. In other words, X can produce

A more cheaply than Y, X can produce B also more cheaply than Y. But X can produce A much more cheaply than can produce B. Hence, X has a relative advantage in producing A and as such concentrates all its productive force in this article and in exchange for its surplus production obtains from Y, B. It happens undoubtedly that the price X has to pay for B of Y is higher than if B was also produced within X. But X's gain lies in this that the quantity of labour and capital devoted to A gives a greater gain than the loss involved in having to buy B from Y at a higher price.

When a country has a greater comparative advantage in one good than another, though it has an absolute advantage over another country in respect of both goods.

Origin of international trade—The origin of international trade thus lies in a difference in the comparative costs of production of two or more commodities in the same country. The costs compared are the costs of producing two or

Law of comparative costs.

more goods in the same country, and not the cost of producing the same article in the trading countries. And so long there is a difference in the comparative costs, international trade will continue.

Values in international trade :—When the trading countries proceed to exchange their products, at what rate will these be exchanged? The trading countries are so many non-competing groups as there is no mobility of labour and capital from one country to another. Hence, the values of goods that enter into international trade cannot be measured by their costs of production. The values of goods are determined by the comparative intensity of reciprocal demand, operating within the limits set by comparative costs.

The advantages which follow from international trade are similar to those from division of labour and localisation of industries within a country. These advantages are summarised below :—

**Advantages
of international
trade.**

- (a) A commodity which is incapable of being produced in a country (for climatic and similar reasons) may be obtained by foreign trade and thus the people benefit from a larger variety of commodities.
- (b) The production of goods in each country is most efficiently conducted and thus a maximum return is secured.

- (c) The concentration of a nation's productive energies in the most profitable channel leads to further gains from concentrated and large scale production.
- (d) International competition keeps every nation keyed to the highest pitch of efficiency and conduces to a stability in prices.
- (e) Commercial intercourse between nations tends to create a fellowship and the economic interdependence promotes world's peace and progress.

Like division of labour presenting certain disadvantages, the international division of labour also produces some injurious effects. These are as follows :—

Disadvantages of international trade

(1) International trade presupposes the concentration of the entire productive forces of a country in the most profitable sphere. Hence, if a country happen to mine, say, coal or petroleum, or any other nature's irreplaceable resource, eventually a point of extinction is reached. There is need for husbanding out the resources of a nation, specially those of an exhaustible nature.

(2) The present generation may gain no doubt, but the interest of future generations is ruthlessly sacrificed. "Is Britain's coal inexhaustible that she should be supplying half the world with anthracite?"

(3) Import of cheap goods, specially drugs and intoxicating liquors, is harmful to a country.

(4) Concentrated production brings in its train many degenerating results, such as, congestion in towns, evils of slum life, insanitary surroundings etc.

(5) Extreme specialisation is not always good. If for some reason or other the demand for a country's commodity cease or if a rival country enters into the arena, the country is faced with the prospect of universal unemployment.

Equality in the money value of a country's exports and imports.

A country's exports pay for its imports and an equality between the two is established by the movements of specie from one country to another. A country's exports represent the demand of other countries for its products, while the imports represent its demand for the products of foreign countries. Foreign trade constantly tends to equalise a country's demand for foreign products and the foreign demand for its own products. An increased demand for foreign products will mean an excess of imports over exports, necessitating shipment of money to foreign countries and thus lowering domestic prices. Exports will increase on this lower price level until they equal imports again. Conversely, an increased foreign demand for a country's product tends to produce an excess of exports over imports and cause shipment of foreign money into the country. This lowers prices

in foreign countries so that they pay for the large quantity of goods demanded by exporting more goods on the basis of the lower price level. Admission of foreign money into this country will raise its price level and thus restrict the opportunities it formerly had in maintaining an excess of exports over imports.

Balance of trade and other obligations : The statement made above that the exports and imports of a country tend to equality is true not in the sense that the merchandise exported and imported represents an equal value. All the items of a country's exports or imports are not recorded and those that are not recorded constitute valuable items. To the value of a country's export of merchandise will be added the various services rendered to other countries and for which payments become due. The following list shows the various items for which payment must be made or claimed according to circumstances :

- (a) Merchandise imported or exported.
- (b) Loans, borrowed from or by other countries.
- (c) Interests due on outstanding loans,
- (d) The services of shipping.
- (e) Personal services rendered in one country when payment is received in another, or made by funds derived from another.
- (f) Tributes, subscriptions and the like.

(g) Finally, gold imported or exported.

The advantages of international trade rest on the free flow of goods between the trading countries and when no restrictions are imposed on their movements. Whenever there is a freedom of international trade from interference by government restriction, it is known as *free trade*. The world policy is, however, further away from it. Restrictions are placed by governments upon international trade usually in the form of taxes on exports or imports. When a tax on imports is imposed for securing a revenue for the state it is referred to as a tariff for revenue only. When the import tax is imposed, not for revenue purposes, but for the purpose of developing the home industries, it is referred to as a protective tariff. Under free trade either no taxes are imposed or a few commodities are taxed for revenue only.

Protection :—Protection is a negation of the principle underlying free trade. It aims at promoting the national unity and developing a nation's *capacity* of producing wealth which is said to be infinitely more important than wealth itself.

The various arguments that have been advanced in favour of Protection are summarised as follows :—

**Arguments
for
Protection.**

(1) Protection aids young industries.

It often happens that an industry is unable to get a

start because of adverse foreign competition. It is during the initial stages, i. e. so long it is in an infant condition, that it requires the fostering care of the state and the state will be justified in imposing protective tariffs so long the domestic industry will not be able to overcome the initial difficulties. The implication is that as soon as the infant develops into an adult, the protective duties will be removed. This argument applies with some force when an agricultural country wants to transform itself into a manufacturing country.

(2) Protection is advantageous as it promotes diversity of employment. A country with diversified industry is better off than another whose industries are specialised. In the latter case dependence on foreign markets both for sales and purchases becomes inevitable. The risk in such a dependence is obvious. The idea, of course, is to make the nation self-supporting and thus minimise its reliance on other nations. The German protectionists have stressed on this point. They have pointed out the futility of Germany developing her manufacturing industries, to the neglect of agriculture, as without agriculture the nation cannot be supported in case of war. Moreover, exporting manufactures to less developed countries will last so long as the latter do not develop industries in their own countries. The inevitable day will come when the foreign market will be closed.

(3) Protection raises and maintains high wages.¹

This argument has been interpreted in diverse ways. In some countries where wages are high (as in the

U. S. A.) it has been argued that protective
High wages tariff should be imposed in order that the
argument.

American wages can be kept high and the high American standard of living maintained by shutting out goods made by the cheaper labour of other countries. This argument is applied again for all countries where wages are low and where additional fields for employment of labour are proposed to be created by the protective tariff. This is expected to create demand for labour and thus raise wages. The plea of protecting the poorly paid wage earners from being pushed by the more efficient labourers of the competing countries is also taken.

But the fallacy of this argument is easily shown. High wages and low cost do often co-exist. Otherwise, how would it be possible for America at all to export goods, if lower prices give the foreigners an advantage? Again, Russia and France are protectionist countries, England is based on free trade. Yet, the English rate of wages is higher than the French or the Russian. Low wages are thus found under protection, high wages under free trade. It is the effectiveness of labour that is the cause of high wages. Protection may raise money wages, but real wages will be high only when cheap goods are imported.

(4) It is said that protection is beneficial to agriculture as well as to industry as the increase of wealth will afford a larger market for the food and raw material of the neighbourhood. Thus **Home market argument** if cotton manufacture is established and no importation of foreign textiles takes place, the people engaged in it will buy food and other things and an additional market for food is thereby created. But the real point is missed. To cut off imports is also to cut off exports and in place of exchange between countries is substituted exchange within the country. And the fact that foreign cotton manufacture was got cheaper by importation shows that the foreign market is better than the domestic market. Sale in the home market renders unnecessary the incurring of expense of transportation to distant countries. Also production of bulky and perishable goods which cannot be sold in foreign markets will find an easy market in the country. This argument has been much weakened in recent times by reduction in the cost of transportation and improvement in facilities for preserving perishable goods. Granting the force of the argument, that the existence of a large home market is beneficial to the farmer, what really happens is as a producer the farmer gains, but as a consumer his advantages may be more than neutralised by the higher prices he will have to pay.

(5) The balance of trade argument is crudely mercantilistic and rests on the assumption that imports

are bad and exports are good. In order to secure a favourable balance of trade, i.e. excess of exports over imports, imports are to be restricted, and it is in this way that precious metals will be brought in and the country enriched. This sort of argument rests on no economic basis. Exports pay for the imports and it is impossible that imports will decrease, but exports are kept high. In the second place, it is not the excess of exports over imports that brings gold in the country, but the excess of credits over debits. Moreover, the fallacy of the argument rests on an identification of money with wealth. Wealth is not money, but money's worth and after a country has secured enough gold for monetary purposes, any more money will be a source of embarrassment, and sooner or later the surplus gold must be got rid of.

Quite a variety of arguments have been advanced in support of protection. Besides the arguments referred to above, a few others may be noted below ;—

Other arguments for Protection briefly summarised

(6) Protection increases productive power.

(7) Protection encourages immigration of labour and capital.

(8) Protection lowers prices by increasing home competition.

(9) Protection does not raise prices to the consumer.

(10) Protection secures a steady market.

(11) Protection helps to prevent exhaustion of superior soils or natural agents.

(12) Protection checks the necessity of recourse to inferior soils.

(13) Home trade is more profitable, as it gives double employment to capital.

(14) Protection prevents an unfavourable distribution of money.

(15) Protection is advocated on the political ground, namely, that defence is of much more importance than opulence.

Arguments for Free Trade :

To the above arguments the free trader's reply is simple. It is a simple corollary from the principles of division of labour. Exchange between individuals of the same locality rests on identical advantages on which international exchanges hinge. "International trade is like internal trade : the freer it is, the greater are the advantages to both parties." And this advantage does not cease because a political boundary line separates one section of mankind from another. Any restriction on exchanges will obstruct this free trade and is a retrograde step and entails loss to the trading parties.

The case for free trade rests on the following grounds :—

(1) Protection means a violation of a man's rights

to buy and sell where he likes and prevents the poorer classes from benefiting by the imports of cheap goods from abroad.

(2) Protection involves an unnecessary tax on the consumer as the prices of the domestic goods are increased by the tariff rates. "Protection is thus a robbery of the many for the benefit of the few."

(3) Protection creates a maladjustment of the productive forces of a community and retards a country's economic development.

(4) Protection does not really protect as certain industries that are artificially created are effected at the expenses of others which are necessarily destroyed.

(5) In protection is involved a political corruption. It creates vested interests and these exert a demoralising influence on the legislature for the perpetuation of the preferential treatment.

(6) Free trade promotes peace and good will, whereas protection creates bitterness of feelings between nations and nations who often resort to retaliatory tariffs and commercial war measures. Protection stands for national animosities, free trade for universal brotherhood and promotion of world's progress and civilisation.

CHAPTER 14

Distribution—Rent

*Contents :—*Meaning of distribution. The Problem. Law of Diminishing Productivity. Rent. Ricardo's theory of Rent. Rent and Unearned Increment. Rent and price of agricultural produce.

Distribution of wealth :

In distribution is studied the remuneration of the factors of production, i.e. the sharing of economic goods among those who have helped to produce them. The four factors of production are land, labour, capital and enterprise. It is by a joint collaboration of these factors that a vast stock of wealth is produced, wealth which awaits to be divided among the productive members. This wealth is thus called the National Dividend and a portion of it goes to the landlord who receives it by virtue of his ownership of land and it is called rent. Because of the labourers' contribution, their share is called wages. Similarly the capitalists' share is called interest. Finally, the share of the enterpriser or organiser is called profits. Thus there are as many shares in distribution as there are factors in production. And after rent,

**Meaning
of
Distribution**

wages, interest and profits have been paid the whole National Dividend is exhausted and nothing is left behind.

We live under money-economy and so wages, interest, rent and profits are paid in money.

**Distinction
between
real income
and money
income.**

And the incomes of the producers are obtained as money incomes. But the real income consists not of money, but of goods and services. Thus a man's real income consists of articles of food, clothing, shelter amusement and the like. In distribution also is really involved the distribution of these goods and services. After all, whether a labourer is better off or not depends, not upon the amount of money income but upon the quantity of goods and services which the money income will procure. Hence, the goods and services which have been produced and which await to be distributed among the productive members constitute the real income. And the distinction between real and money income is important. It is possible to increase money incomes without increasing real incomes. If the currency of a country is doubled the money incomes of many persons may be increased but the simultaneous increase of prices would largely offset the increase of money incomes. It is for this reason that comparisons of the relative positions of labourers of different countries by taking their money incomes into consideration, are rather misleading. The relative purchasing power of money really

counts as on it really depends the degree of prosperity of the labouring classes.

The problem of distribution :

The national dividend which constitutes the sole source of payment may be compared to a flow, a stream, which is being constantly produced by the agents of production and divided as soon as it is produced.

The problem of distribution briefly is : What principle underlies the apportionment of the respective incomes of landlords, labourers, capitalists and organisers ? Why do not wages get a greater share than they get actually or why rent does not get a less share than at present ? Does the division between them rest on a mere accident or on any economic principle ? Another problem of distribution is concerned with the ethics of the present-day system ? Is the distribution fair and just ? Could we conceive of any other system which will be an improvement upon the existing one ? Is it possible to devise a system under which every member of the community will have enough for himself, poverty will cease altogether and there will not exist sharp inequalities of incomes of peoples ? Let us, for the present, confine our attention to the first problem and make an endeavour to find out the economic forces which operate to make the division what it is.

The problem of distribution is, in its final analysis,

a problem of valuation. To explain the value which society puts upon labour is to explain wages.

Principle of distribution Similarly to explain the value attached to land or capital or enterprise is to explain the phenomenon of rent or interest or profits. The problem of distribution is at best a problem of valuation and the marginal productivity theory of value is the governing principle of distribution. The simplest way to state this theory is to say that any factor in production, land, labour, capital or organisation, tends to *get as its income the marginal product of that unit*. The marginal product attributed to the employment of a unit is the product which is just worth having. It may be taken as a natural sequel to the operation of a law of universal application, the law of diminishing productivity.

Suppose, a farmer is called upon to produce more corn. This can be done either by employing more labourers on the same soil, or more capital or by bringing additional acreage into cultivation. Suppose, he adopts the first alternative. For some time the employment of additional

A simple illustration of the law. doses of labour in the same soil may mean more than a proportionate increase in the product. Thus two men working in a soil may mean that the produce is more than doubled and this may continue up to a few more doses. But sooner or later a point is reached when the farmer finds that the employment of the last man has

Law of Diminishing Productivity.

not increased the produce by as much as it was increased by the last previous labourer. This point is the point of diminishing productivity. From after this point, each successive labourer will add to the aggregate product by an amount less than already added to by his predecessor. But because the successive labourers will each produce a lesser amount than the preceding labourers, it does not follow that the farmer will not think of employing any labourer after the law of diminishing productivity has set in. But this is by no means true. The only question that confronts the farmer is whether an additional labourer will earn his own wages, i. e. whether the additional product obtained by the employment of any dose of labour will sell for enough to equal the additional expenses incurred for paying his wages. If the farmer stopped earlier he would not be making as much profits as he could have made; if he goes down beyond this point, his will be a losing concern as more wages will have to be paid than the labourer earns. The last labourer employed is called the *marginal labourer* and the additional product, attributable to the employment of that labourer, is called the *marginal product*. All the labourers, from the first down to the marginal, are of the same sort of efficiency and therefore all will be paid at a uniform rate of wages and evidently the product of the marginal labourer is the sole determinant. Hence, it is said that the marginal product of labour and wages tend to equality. What is true of labour, is true of capital and the product of

the marginal dose of capital and interest tend to equalise and so on for the two other factors of production.

Rent :

By 'rent' is meant the return that is secured by the owner of any natural agent. The commonest case is the rent secured from land, but the rent from other natural agents, such as, water privileges is an income of the same sort. In short, 'rent' is confined to designate all incomes from land (i.e., gifts of nature), as interest is to designate incomes from capital.

People pay for the use of land as well as for other things because they have utility and are scarce in supply. Thus, nobody would pay for land if it was not useful. Again, nobody would pay for it, despite its utility, if it were not scarce. When the nomadic people settled down to agricultural life, and arable land became scarce, rent began to emerge.

In order to understand the theory of rent the three peculiarities of land must not be lost sight of:—1. Limitation of quantity. The supply of land is rigidly fixed by nature. Hence, an increased demand for land will mean that every inch of land will be fully utilised by intensive method of cultivation and waste lands taken up for cultivation, but even then if the

demand is kept increasing, the value of land will indefinitely increase.

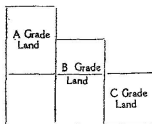
2. Differences in fertility. Lands differ in fertility or productiveness and these differences are due to composition of land, climatic and topographical conditions.

3. The importance of location is also great and the rent of agricultural land depends upon its location as well as upon its fertility. Thus, differences in fertility have exactly the same effect as differences in situation. But this situational advantage becomes less with the lowering in the cost of transportation and the cheapening of carriage in modern times has greatly diminished the importance of situation rent.

Ricardo's theory of rent :

Suppose, a land is colonised by a body of new settlers. There is plenty of land available and no one will pay for it as any one can appropriate as much as is necessary for his use. Under such circumstances no rent need be paid. Even the best soil is found in plenty, it is like air or water. And this continues so long as population does not increase. With increase of population the best lands will be taken up one after another and next the cultivation is pressed down to inferior soils. Thus a stage is reached when superior and inferior soils are simultaneously cultivated. The same expenditure of labour and capital will make the former soil grow a larger quantity than the latter soil

In the following figure the three rectangles will represent the quantities of crops raised from each of the three grades of land A, B and C. Evidently, all corn



will sell at a uniform price, and as the cost of the cultivator of land C is the greatest (i. e. in relation to the produce obtained), it is his cost of production that determines the price of the whole supply. The C

grade land is the marginal land, i.e. land whose expense of cultivation is just realised by the sale of the corn it produces. Compared to the produce of this land, the B and A grades must have yielded a surplus, represented by the upper areas, and these differential yields of lands A and B are the rents of those lands. Rent thus is a differential yield and this measures accurately the superiority of the rent-bearing land over the marginal land. In the first generation of the colonists when the A grade land was alone cultivated, it was the marginal or no-rent land. In a subsequent generation when A and B grades are simultaneously cropped B grade land is the marginal land (i. e. no-rent land) and the A grade is a rent-bearing land, its rent being measured by the difference between the two areas. In the next generation when the three grades of land are simultaneously cultivated, B grade becomes a rent-bearing land, the rent of the A grade further increases and the C grade

land is a no-rent land. The rent of any plot of land is the difference between the produce of that land and the produce of the land on the margin of cultivation.

In the above illustration, it is assumed that the applications of labour and capital are made on different soils, the cultivators passing from the superior to inferior soils. As a matter of fact, even after the A grade land has been occupied, the supply of agricultural product can be increased without resort to the B grade land. Successive doses of labour and capital may be used on the *same land*, but by encountering the law of diminishing return. It may pay to make use of more intensive cultivation of land A up to the point where the last unit of labour and capital adds barely enough to the product to pay for the increased expenditure. This is the point of intensive margin. In the first case there is an extensive margin of cultivation, i.e. an investment on the marginal land from which producers secure just enough to cover their expenses. In the second case, there is an intensive margin of cultivation, i.e. a more complete but more expensive utilisation of old lands, which is made possible by increased prices. So, corresponding to the extensive and intensive forms of the law of diminishing return, there are also extensive and intensive forms of the theory of rent.

Land utilised in manufacturing or commercial enterprises is valued according to its location, both in respect to the market and labour supply. Increasing

demand for products will raise prices so that producers will force their marginal investments on the more distant land or less desirable lands or will invest more intensively upon land already occupied. The principle governing the rents of such lands is the same as that which determines agricultural rent.

Rent of land used for other purposes.

It has been claimed that economic progress leads to a decided rise in rents. The satisfaction of the increasing wants of man requires the increasing of food products and raw materials by means of more extensive and intensive cultivation.

Rent and social progress.

This means that the extensive and intensive margins of cultivation have to be constantly pushed down and there is a consequent rise in rents. The better lands secure differential returns. So also in the case of town lots, it is urged, that every increase of population raises rentals in a marked degree. All such increases are due solely to the growth of society and not to any exertions of the particular land-owners whose rentals are increased. Hence the expression "unearned increment" has been applied to this growth of rent produced by social development.

Appropriation of unearned increment by the state.

causes.

The expression 'unearned increment' suggests that the increase in land values cannot be attributed to any special effort on the part of the owners of land, but is due to growth of population and general social

It is for this reason that certain reformers have advocated the appropriation of this unearned increment in the form of a tax. The American reformer, Henry George, gave a scheme of "single tax" under which all economic rent should go to the state and the people would be relieved from the necessity of paying all kinds of taxes they do at present.

There are certain practical difficulties by way of realisation of the scheme. The entire rental of a land, specially agricultural land, cannot be regarded as an "unearned increment". Capitalistic improvements made on land become a part and parcel of the soil and it is impossible to determine how much of its income is due to the indestructible and original properties of land and how much to capital improvements. To tax the whole economic rent on agricultural land is, therefore, unfair and revolutionary in character. In the case of urban land, however, the matter is entirely different. But with such land, its value has always depended on its rental and all sales of land have taken place and the buyers have paid large sums for the land and received a return equal to interest. To appropriate the full amount of rental from the present owners of land would be to confiscate the entire value of the land. The situation is, however, different with regard to all future increase in the value of land and the state may be justified in taking a large share of this future unearned increment from land.

The economic law of rent presupposes competition.

It assumes that a landlord will eject a tenant the moment he finds another who can pay more rent, and that tenants will give up their lands the moment rent rises above the true economic rent. But competition is often imperfect and landlords often do not exact full competitive rents from their old tenants. And farmers who cultivate land for subsistence may be forced to pay more than full economic rents. Similarly, competition is much more active among business men and tends to make actual rentals equal to the pure economic rent.

Actual and pure economic rent.

Rent and price.

That rent forms no part of the expenses of cultivation can be proved by the following arguments :—

Relation between rent and price of agricultural produce.

(1) The price of agricultural produce is fixed by the cultivator who cultivates the marginal land (in the case of extensive cultivation) or who applies the marginal dose of labour and capital in the same land (intensive cultivation). In either case the cost of cultivation is the highest, compared to the costs incurred in the better lands or previous applications of labour and capital in relation to the agricultural products obtained. As corn sells at a uniform price and the pressing down of the margin has been a social necessity, it is the cost of cultivation of this marginal land (or marginal dose of

labour and capital) that determines the price of corn. But in his analysis of the cost of production rent is not an item, as the land is the "no-rent" land. Because he contributes nothing in the shape of rent, it may be argued that rent does not enter price.

(2) In so far as the produce of the better soil is concerned, it may be urged that the selling price of corn is increased by the amount of rent and thus rent becomes a cause of price. But to this it may be replied that rent is an effect and not a cause of price. Rents do not raise prices, but are caused by high prices,

(3). Still another argument may be adduced to prove that rent is not a price-determining factor. Suppose, all landlords will remit rent. Such a remission will not affect the position of the marginal cultivator. The price of corn will remain the same and the rent which so long was being appropriated by the land-owning classes will now go to the pockets of the cultivators. Rent thus is not the cause of price, but rather is the effect of price; it is due to the comparatively high price which must be paid to bring into existence the total supply.

CHAPTER 15.

Distribution (Continued)—wages.

Contents ;—Definition. Real and Nominal wages. Theories of wages. Iron Law of wages. Wages Fund Theory. Residual Claimant Theory of wages. True Theory of wages. Causes of differences of wages. Labour Organisation. Agencies for establishment of Industrial Peace. Unemployment. Causes and remedies.

Definition of wages :

Primarily, wages are the reward received by the hired labourers. The term is sometimes extended to include the independent incomes received by workers who carry on economic activities on their own account. Another view is to regard as wages that share in the product of the industry which goes to labour which is one of the four factors of production.

The points of distinction between the two forms of income are as follows :

| | |
|--|--|
| Distinction between wages and salaries. | (1) Salary continues so long as the person is in the employ of the master, but wages cease generally as soon as the work is interrupted. |
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(2) Salaried persons are employed for definite terms and for a comparatively long duration. The wage earner has no such security of tenure of position.

(3) Salaried employees stand in closer personal relations with their employers than the wage-earners.

Real and Nominal wages :

Nominal wages relate to the amount of money which a labourer receives during any specified time.

Distinction between real and nominal wages. Real wages are the "necessaries, comforts, and luxuries" that the labourer is able to command as remuneration for his labour. A labourer's well-being depends not only upon the amount of his money wages, but also upon the prices of the things which he buys with the money. "The labourer is rich or poor, is well or ill-rewarded, in proportion to the real, not to the nominal, value of his wages." As a matter of fact, nominal wages in one industry may be higher than those in another, but the real wages may be considerably less. The factors which determine real wages may be enumerated thus :

(1) The purchasing power of money, i.e. the general level of prices. A higher price level causes the real wages to become low and *vice versa*.

Factors determining real wages.

(2) The regularity of employment.

(3) Chance of obtaining supplementary earnings.

(4) The nature of the employment ; the conditions of employment may be exhausting and dangerous to the life (e.g. work in suffocated atmosphere or metal-

grinding etc), or it may be carried on under pleasant, wholesome and sanitary conditions.

(5) Specific forms in which the payment is received. If in addition to money wages the labourer gets free other things, such as, free rations of tobacco, meal etc. these add to real wages. The real wages of men holding pensionable posts are thus higher than those on the non-pensionable list.

Time wages are wages paid according to the time that a labourer works. Piece wages are paid according to the quantity of work that is done. Men employed on time wages have less direct interest in the work and piece workers, who are paid according to the output, naturally do more work in a given time and earn more money. Wages may also be paid not by the time during which the workers work nor by the quantity of the output, but by the ability of the worker and such wages are called efficiency wages. And competition tends to equalise efficiency wages, not so much the time or piece wages.

The question of wages must be studied in two aspects. We must first investigate the economic principles according to which the general wages are determined. This question has to do with the share of the national dividend received by the entire class of wage-earners and this is the problem of general wages.

The wages problem—general and relative wages

Next, we have to inquire into the causes that determine the various rates of wages paid to different individual labourers or groups of labourers within a country. This is the question of relative wages.

Theories of General Wages.

Various theories have been put forward by way of an explanation of general wages and these theories explain what portion of the national dividend goes to the labourers as a whole. We may briefly examine some of the most important of the theories :

The Iron Law of wages or the Subsistence theory of wages.

Labour is a reproducible commodity and the value of labour, i.e. wages, like the value of all reproducible goods, is fixed by the cost of production. And the cost of production, in the case of labour, is the cost of perpetuating the supply of labour, i.e. the cost at which a supply of labour will be existing from generation to generation. This cost always tends to be the bare minimum of subsistence, i.e., the amount which suffices to maintain the labourer and his family. This theory thus becomes the minimum subsistence theory, also known as the brazen or iron law of wages.

This theory has been discredited, for :

- (a) the theory does not fit in with the facts of the modern world as the wages paid are considerably higher than the subsistence level;
- (b) a rise in the standard of life, by causing a

restriction of supply of numbers, virtually raises the position of the margin and therefore wages.

- (c) the price can never be fixed by cost of production alone. This theory was advanced by the English economists in the beginning of the 19th century and may be regarded as a corollary of the Malthusian doctrine of population.

The Wages Fund theory.

This theory rests on three premises: that a fixed proportion of the capital of a country is set apart for payment of wages and this fund is called the wages fund; that this fund is predetermined as it is the result of past years' savings; that wages are founded by dividing the wages fund by the total supply of labour. Hence, wages rise either by an increase of the fund (and hence strikes are condemned as they cause profits to dwindle and thus reduce the fund itself) or by keeping down the population.

The defects in this sort of reasoning are:—

- (a) wages are never paid out of a fund, but out of a flow.
- (b) no business man sets apart a fund exclusively devoted to the payment of wages alone.
- (c) this theory cannot explain why inequalities of wages persist in different trades.
- (d) the efficiency of labour which is the real

cause of wages is not at all given any prominence.

- (e) It cannot explain why wages are higher in new than in old countries, though the wages fund is lower in the former than in the latter; neither can it explain why in times of crises (when there is an abundance of fund) the labourers are unemployed.

The Residual Claimant theory of Wages.

The labourer is regarded as the residual claimant to the product of an industry. Walker, the author of the theory, held that wages equal the whole product of the industry, minus rent, interest and profits. According to this theory, wages are kept high by the competition of a number of capitalist-employers which reduces profits to a minimum and compels them to give the labourers a larger share of the product.

The merit of the theory over the others is that the labourer benefits from his contribution to the national dividend, specially when the product of the industry is increased by his extra efficiency. This is an optimistic theory as the labourers earn more as they produce more and their wages are not depressed to the bare subsistence level.

The true theory of wages.—The Supply and Demand theory.

Wages are paid for services rendered and the evaluation of the services will come under the general laws

of supply and demand. Wages will be so fixed that the supply of labour of one kind will equal the demand for it. But we have to see to this, why the supply of labour and demand for it are what they are. A close analysis will show that the factors affecting the supply and demand of labour are largely different from those governing the supply and demand of other commodities.

Demand for Labour.—The demand for labour arises because of the demand of the products which the labourers help to produce. And what the labourer produces he does in conjunction with land, capital and enterprise. The proportion of the product that is attributed to labour is determined by the marginal productivity of labour. The employer's demand for labour simply means the number of labourers that he will employ at a certain wage. And the amount of wages he can afford to pay will be determined by the net addition made to the product by the last labourer. This labourer is called the marginal labourer and hence it is said that the produce of the marginal labourer and wages tend to equality.

Supply of Labour:—On the supply side, there is a minimum below which wages cannot fall and that minimum is the standard of life of the labourer. This minimum is the sumtotal of the necessities, luxuries and comforts to which a labourer is accustomed and upon which he will insist under a regime of perfect competition. Assume that there has taken place a rapid growth

of population and this is reflected in a particular industry. Evidently, the margin is lowered down and the marginal productivity of labour diminishes. The employers pay less wages, but a lowered rate of wages brings a repercussion in supply. Those of the labourers who are married and have children to look after will not be in a position to properly rear them up. They will be ill-fed and ill-clothed and they may meet with premature death. Those who are unmarried will not enter into matrimony, so long as the depression in wages continues. Thus is brought about a reduction in numbers, pushing the margin upwards, and causing the wages to go up by raising the marginal product. Either of two consequences may now happen. Increased remuneration may again stimulate an increase in population by increased and early marriages and thereby lowering wages or wages may remain at the high level if the population is kept stationary. A high rate of wages thus attained can be maintained if there take place a rise in the standard of life. And standard of life means the number of wants to which a labourer is used and whose satisfaction he considers to be of greater importance than satisfaction of mere procreative instincts.

It is thus clear that the movement of wages is like the movement of a shuttlecock tossed hither and thither. But wages tend to gravitate towards a natural rate and this normal or natural rate of wages is one which, on the one hand, equals the marginal product of labour, and, on the other hand, equals

the amount which a labourer requires for meeting the cost of rearing and maintaining himself and his family. The standard of life exercises a great influence on wages, not directly, but indirectly by causing a restriction of numbers.

Although labour, like other commodities, is bought and sold at a price (i. e. wages), there are certain peculiarities affecting its supply and demand and these produce their effects on wages.

**Peculiarities
in the
nature of
demand and
supply of
labour.**

These peculiarities are as follows :—

1. The labourer sells his work, but retains the faculty of working in himself. It is thus of the highest importance that his property be developed in full and much therefore depends on the unselfishness of the parents.

2. The labourer has to deliver his labour himself. The labourer has to take the conditions under which he will work (namely, sanitary or otherwise and so on) and this is the reason why there is less mobility of labour than of other commodities.

3. The labourer has no reserve fund and he is generally at a disadvantage in bargaining with his employer.

4. Labour is a perishable commodity and this and the last named characteristic produce a state of things under which the labourers are outbargained by the employer. It is for strengthening their economic position that labour unions have sprung up and

collective bargaining is substituted for individual bargaining.

5. Slowness of the growth of new supplies of labour. Additional supplies of labour or restrictions in supply can be brought about, but this is a question of one generation. Hence, the supply of labour cannot be quickly adjusted in response to changes in demand.

The Problem of Relative wages :—

It is necessary to explain why the wages received by hired labourers differ in various employments. Manifestly, labourers compete with one another as far as possible. Why, inspite of this competition, the same rate of wages does not prevail in all employments? There are considerable differences in wages as between various occupations within a country.

The causes of differences in relative wages :

—Adam Smith enumerated the following five circumstances as accounting for the difference in money wages in different occupations :—

1. The agreeableness or disagreeableness of the employments themselves.
2. The easiness and cheapness, or the difficulty and expense of learning the business.
3. The constancy or inconstancy of the employment.
4. The small or great trust which must be reposed in the worker.

5. The possibility of success or insuccess.

Why are women's wages lower than men's?

Lowness of women's Wages. This is due to a variety of causes which may be summarised below :—

1. Women's choice of occupation is not entirely free, though the obstacles are now being steadily removed. But so long women remain in a non-competing group confined to their sex, there is congestion of work-finding women and the wages are depressed.

(2) Most women live in their homes and their earnings form a part of the earnings of the family to which they belong. "They are subsidised". And this is the reason why women can afford to work at a wage less than would suffice to maintain a family.

(3) Women are at a disadvantage in comparison with the men in respect of their physical strength and general efficiency. As women are less efficient than men in some kinds of employments they are paid less.

Organisations of Labour.

Labour organisations are combinations of hired labourers. They have come into being because of the sharp separation between the labouring and the employing classes, an inevitable outcome of the modern capitalistic system of production.

The earlier organisations, the trade unions, were composed chiefly of skilled workers, organised into

separate trades or crafts. The subsequent organisations (called Knights of Labour in America) were known as New Trade Unionism in England and they sought to unite skilled and unskilled hired workers and improve thereby the condition of the entire class of wage earners.

Two types of labour organisations.

The objects of such organisations are as follows :—

Objects of Labour organisations.

(1) They raise funds from the members which are devoted to benefit schemes by which the sick, disabled or unemployed members are assisted.

(2) They aim to educate the labourers and promote culture and social intercourse among them.

(3) They enter into political movements and try to secure labour legislation in their favour.

(4) They try to secure better wages by promoting mobility of labour, by restricting the number of apprentices admitted into each trade, and by securing collective bargaining with employers.

(5) They sometimes utilise the strike for purpose or securing better terms.

A strike is a concerted refusal on the part of the labourers to work and manifestly it is an evil in itself, since much loss is caused both to employers and labourers. A strike also creates much bitterness of feelings and the public are greatly inconvenienced.

Strikes and boycotts.

Strikes are defended when they are the only alternative to submitting to unjust terms offered by the employers. Many strikes have been wholly justified as many others have been unjust and unwise. One way to force the employer to pay high wages is to take him at a disadvantage, as for instance, when he has undertaken to finish large amounts of work within a fixed time.

The boycott is another weapon and it is "an organised attempt to coerce a person into compliance with any demand, through a combination pledged to abstain, and pledged further to compel others to abstain, from having social intercourse with him or to trade with him". The boycott is more objectionable than a strike as it interferes with the rights of persons not directly connected with the original strike.

The employers look upon labour organisations with a mixed attitude. But when labour organisations adopt a conservative policy and choose men of ability, integrity and character to represent them, employers are generally willing to treat with representatives of unions.

The criticisms passed on the labour organisations may be stated :—

Other aspects of labour organisations.

- (a) They limit the number of apprentices in particular crafts and thus limit the supply of labour, a procedure injurious to labourers of other trades which suffer from excessive numbers.

- (b) Labour unions sometimes limit the amount of work to be performed by their members. The object is to provide work for a larger number of men. This is, however, a short-sighted policy as the national dividend is restricted and the incomes of all persons correspondingly diminish.
- (c) The members of labour unions treat sometimes non-union men harshly and thus interfere with the personal rights of the non-members.
- (d) Labour Unions are also criticised as they are based on the principle of strife and perpetuate industrial warfare.

Some agencies for establishment of Industrial Peace.

Various devices have been suggested to bring about an identification of interest of the employers and employees so that the losses and disturbances from strikes and boycotts may be minimised.

Profit-sharing is a plan for giving the labourer an inducement to work efficiently and for securing greater harmony of interest between employers and employees. The labourers are given shares in the profits of the business, the purpose being to induce them to increase their output, improve its quality and thus contribute towards the creation of extra profits in which they share.

Profit-sharing.

The experiment is rarely successful. There are small profits to divide, sometimes no profits at all. Moreover, it may be objected to from the standpoint of the employer. How can labourers be made to share in any profits if they bear no share of the losses?

These arrangements consist of providing the labourers with schools, libraries, play grounds, good dwellings, pensions and mutual aid societies and the like. These help in considerably minimising labour discontent.

**Welfare
arrange-
ments.**

Sliding Scale : This is an entirely different device. Under this system, wages are made to vary with the price of the product, wages rising as the price rises and falling as the price falls. A minimum rate is agreed upon and wages are not allowed to fall below it. The method is applicable only in case a homogeneous product is turned out.

Boards of arbitration and conciliation have been established in various trades. Employers and labourers select their representatives who form a committee or board before which all differences are brought for a fair consideration.

**Concilia-
tion and
Arbitration:**

Arbitration may be either voluntary or compulsory. The essential feature of the former is that the employer and employees consent to submit the question to a board whose decision, however, is not legally binding on the parties. In the case of compulsory arbitration, which is found in the states of Australia, the findings

of the courts of arbitration are binding on both parties.

Under conditions of competition the labourer tends to get his marginal product. But he cannot bargain on equal terms with his employer as he is the weaker party and therefore stands the chance of being underpaid or outbargained by the employer. It is to strengthen his position that labour unions have grown up. The labourers, organised as members of unions, deal collectively with employers, and thus eliminate the chance of getting work under exceptionally unfavourable terms. And when the labourers collectively bargain they are expected to secure the full value of the marginal product as their wages. The labourers are specially successful in achieving this object when the labour organisation is compact and prevents other labourers from joining their ranks. Thus a monopoly of supply of a particular kind of labour is established and the terms offered by the organisation tend to approximate the marginal product.

The Problem of Unemployment.

Of all labour problems unemployment is perhaps the most baffling. No doubt, there are certain personal factors in unemployment. Some are inefficient, some sick, some old and some are criminally-minded. But at the root of the colossal problem of unemployment is the social or industrial factor. Unemployment, as it were, is the accompaniment of the modern industrial organisa-

tion. None the less, it is a grave social evil and a sense of public responsibility has been aroused.

The causes of unemployment are :--

(1) Short time or seasonal fluctuations of particular trades. Weather conditions are mainly responsible for this state of things. Thus in agricultural and building industries, the operations are carried on for some months of the year and not throughout the year. Changes in fashion also cause trade to become fluctuating.

(2) Alternation between periods of prosperity and depression. Every trade has its busy season as well as its dull season. In all business there is a rhythmic movement. When "times are good" prices rise, all sorts of new industries are launched, the banks afford credit facilities and prosperity pervades the whole atmosphere. Then comes the reaction, a sure set-back, signalled by bank failures and a panicky atmosphere. Industrial depression sets in, bringing in its train low wages, low prices, hard times and unemployment.

(3) Fluctuations in the casual trades. The chief example of this sort of chronic unemployment or under-employment is the case of dock labourers, lumberjacks, etc. Here casual employment is the rule and even in times of activities, a large number of men remain unemployed.

(4) Fluctuations due to the introduction of new

machinery and new processes of production, introduction of new industries owing to change of fashion, inventions etc.

(5) The other contributory causes are the over-supply of unskilled labourers owing to their deficiencies in industrial training, personal deficiencies, physical deformities etc.

Remedial measures :

The suggestions that have been made to lessen unemployment are numerous, the most important of the measures being :—

(1) Creation of employment of labour exchanges. There exists jobless man and a manless job, owing to lack of mobility of labour and lack of information as to employment. The object of the labour exchanges is to bring together the man and the job.

(2) The initiating of large schemes either by state or by municipal authorities.

(3) The perfecting of the scheme of compulsory unemployment insurance.

(4) Regularisation of employment. Regulation may help to spread the work of the seasonal or casual trades throughout the year, instead of high-pressure work for some months alternating with enforced idleness for the rest of the year, as at present. The organising of short-time work may diffuse the work all the year round and thus partially mitigate unemployment.

CHAPTER 16.

Distribution (contd.)—Interest and Profits.

Contents :—Gross and Net Interest. Theories of Interest. Productivity theory of Interest. The Use theory of Interest. Abstinence theory of Interest. The Exploitation theory of Interest. Quasi-rent. Profits. Elements of Profits. Rent theory of Profits.

Interest defined :

Incomes received by owners of productive capital loaned to business managers or banks or by owners of durable consumption-goods loaned to other persons are termed interest. It is the remuneration which is paid for the use of capital. The income which the owner of a house gets when it is let on hire is a consolidated income and that part of the income which is derived from the house is interest and that part of it which is obtained from the land upon which the house stands is called rent.

Distinction between Gross interest and net interest.

Net interest is pure, economic interest, and is the return for the use of capital only. Gross interest is interest actually paid on loans and includes payments for other things. In gross interest are involved some

elements for which payments are made and these elements are :—

(1) Payment for the supervision. Every lender of capital has to devote some time for investigating the safety of various ways of investment, for the realisation of interest, principal and other connected matters, also to devote some labour for book-keeping, correspondence etc.

(2) Payment for the risk involved. The lender undergoes the risk of losing his income, principal and interest inclusive. Some loans prove to be bad loans. The lender naturally demands a higher rate of interest as an insurance against the possible loss of capital.

When allowance is made for all these factors and corresponding deductions are made from the gross income of the capitalist, what remains is true, pure or economic interest. This is seen in loans granted to perfectly stable governments and for long periods of time.

Problems of Interest :

Three distinct problems arise in connection with interest : (1) Is there any justification for interest-taking ? (2) Why is interest paid at all ? (3) What determines the rate of interest ?

The justice of interest-taking was questioned in antiquity, in the Middle Ages and even in modern times, by theologians, philosophers and statesmen. **Legitimacy of interest.** In the Middle Ages, the Roman church and the civil authorities of Europe prohibited the charging

of interest. The opposition to interest mostly rested upon the assumption that a loan was a loan of money, that money was sterile or unproductive and that money could produce no more money. A money-lender, therefore, was supposed to commit robbery on the borrower in taking an additional amount, called interest. In modern times, it has been seen that most loans are loans in the form of productive capital and that producers of wealth are in real and urgent need of capital and that they are willing, from their self-interest, to pay for the use of capital. And this growing need of the business world for capital has succeeded in replacing the mediaeval prohibition of interest.

In many modern states usury laws have been passed, some states fixing a maximum legal rate of interest. Exaction of interest beyond this prescribed limit is regarded as usury. These laws, however, are inoperative in the loan market and the commercial world manages to evade the usury laws in many ways. Usury laws relating to commercial transactions are clearly unwise as the rate of interest is not allowed to be determined by the forces of the supply and demand of capital. This argument, however, does not apply in the case of loans contracted by necessitous people for want or distress. Almost universally, in such cases the helpless borrowers are victimised by the money sharks and their interest should certainly be safeguarded by the passing of usury laws or by giving power to the competent courts to go

**Place of
usury laws
in modern
times.**

behind the terms of the contract in the decreeing of an award.

It is no sufficient answer, in explaining the receiving of interest, to say that a loan of capital is instrumental in the production of more wealth than represented by capital itself. If men would be willing to amass enough capital, without getting any interest, then interest would cease. But this is never to happen. Suppose a person has Rs. 100/-. He can spend it in present day gratification or he can invest it in capital and can secure an income after some time has elapsed. In the latter case, there is an abstention from the present day goods and no one will do it for a future return of Rs. 100/- only and that for two reasons: In the first place, the future is more or less uncertain, "a bird in hand is worth two in the bush." In the second place, even when the uncertainty and risk attaching to the future is minimised, most persons undervalue future pleasures. But many people are willing to invest Rs. 100/- with the knowledge that it will be unrealisable during a year, in return for a premium added to this sum at the end of the year. In short, interest is paid as a premium to equalise future goods or income with present goods or income. Interest is an inducement necessary to lead people to abstain from present consumption and thereby contribute to the formation of enough capital to meet the needs of business.

Why interest is paid.

How the rate of interest is determined

Interest is the price paid for the use of capital and,

therefore, like the prices of other commodities, it depends upon the supply of capital and the demand for capital. An explanation of the rate of interest is thus an explanation of the relation between the demand for and the supply of capital.

The demand for capital comes from all the industries that minister to the varied needs of a society. The demand will be large or small according to the economic activities of the people in all branches of production. The demand for capital is also stimulated by the natural opportunities offered for profitable investments. And the demand of a community for capital is the sum-total of demand from the agricultural, manufacturing, commercial, transport and other industries also from municipal and the state authorities. The demand for capital is subject to the law of diminishing productivity. Hence, the greater the supply of capital available, the less its marginal product and the less will the borrower be prepared to pay for its employment. A rise in the rate of interest, therefore, reduces the demand for capital and, conversely, a fall in the rate of interest intensifies the demand for capital.

The supply of capital (i.e. savings which crystallise into capital goods) comes at the instance of three classes of people, namely,—

- The supply of capital.** (a) Rich persons with large incomes who are driven to the necessity of saving and invest it in capital,

- (b) Persons of moderate means who wish to provide for the future and would do so even at a low rate of interest. This and the first class of people would not require large premiums as inducement for saving.
- (c) A class of marginal savers who save more or less according to the inducements offered for its investment.

Generally speaking, a high rate of interest brings into existence large accumulations and, conversely, a low rate causes a shrinkage in the volume of savings.

It is the interaction of the forces of supply and demand of capital that determines the rate of interest. If the supply is small and the demand for capital is keen, the rate increases. On the other hand, if there is an excess of loanable capital in relation to its demand, the price paid for its use, i.e., interest, falls.

The Important Theories of interest.

In answering the question, why does capital produce more than its equivalent, varieties of answers have been given by economists. And some of the important theories relating to economic cause of interest deserve a passing notice.

The Productivity Theory of interest :

Interest is justified on the ground that capital is productive. Allow a carpenter to work with tools and find the resulting produce. Let him also work without

tools and find the resulting output. He must have produced more when provided with the tools and this extra produce is attributable to the employment of capital. What is true of the carpenter is equally true of the fisherman working with a net or an agriculturist working with a steam plough. This theory explains reasonably enough why there is a demand for capital. But it is open to some objections. If interest is due to productiveness of capital, why should there prevail a uniform rate of interest in face of the fact that different industries are not of the same degree of productiveness? It is also doubted whether the extra produce is to be credited to capital alone or to the labourer and other factors working with the capital? Finally, the productivity theory will be of no avail in justifying the taking of interest on consumption loans.

The Use Theory of interest :

According to this theory, the lender of capital not only transfers capital, but transfers its value, to the borrower during the period of the loan. The capital gets transformed in the product and the use of capital creates interest. The weakness of this reasoning is that in the loaning of capital is involved the loaning of its use as well. Does the capitalist loan two distinct things, the capital and the use of capital, or the two phases of the same thing? The lending of capital undoubtedly includes the lending of its use.

The Abstinence Theory of interest ;

This theory approaches the problem of interest

from the point of view of the supply of capital. An endeavour is made to show why interest must be paid to the owners of capital if its supply is not available. Interest, according to this theory, is the reward of abstinence or waiting. The saver, in abstaining from immediate consumption and postponing it to a future date is doing a sacrifice and interest is the price paid for this sacrifice. The objection to this theory is that even the slightest sacrifice is not made by the well-to-do people when they save a part of their income. It is no doubt true that the rich people are compelled to save and that they would go on saving even if no interest had been paid. In spite of the incompleteness of the theory, it clearly indicates why interest must be paid if the supply is to be forthcoming and to this extent there is merit in the theory.

The Exploitation Theory of interest :

The socialists regard interest as an act of exploitation perpetrated on the labourers by the capitalists who are in possession of the material means of production. "The capitalists are in the position of a highwayman who permits his victims to depart with their lives, provided that they deliver up a large part of their possessions." The element of truth contained in this contention is that production of wealth is ultimately traceable to labour. But interest is not the outcome of exploitation of labour. The capitalist makes a series of advances to the labourers and it is only after lapse

of time that their labours ripen into consumable goods. The capitalist is not a rank exploiter of labour.

Quasi-rent.

The term 'Quasi-rent' is applied to designate temporary or short-period earnings of agents of production the supply of which cannot be instantaneously increased in response to an increase in the demand. The necessary adjustment takes place in a sufficiently long period of time, but during the short period the supply of the factors of production may be conceived as being fixed. Suppose, an increased demand takes place for a particular commodity. The machines which turn out the good cannot be immediately increased in supply and hence during the period when more machines have not been manufactured, the good sells at a higher price. The extra return of capital (i.e., over and above the normal rate) is called quasi-rent. In a reverse case, the return may go below the normal rate. So the quasi-rent is positive or negative. It lasts so long as competition does not work its full effects. The return from land is called rent as its supply is permanently and not temporarily fixed.

Profits :

The difference between the total money income of a business man and his cost of production is termed as profits. Profits partake of the nature of a surplus or residue, i.e. what is left over after all other disbursements have been made. The business man is at the

helm of industry. Into his hands first come the proceeds and he distributes to others their shares in distribution. The labourers and capitalists are paid their stipulated wages and interest. The landlords are paid rent, what remains after all these payments have been made is profits and it is for this reason that profit is called residual income.

Profits being a surplus do not constitute naturally a homogeneous income. No single principle, therefore, is operative in determining profits. As the business man is the claimant of the residue and the residue may be large or small or nothing, there is an element of irregularity of income known as profits. There are wide variations in profits; profits and loss may alternate and these variations from year to year arise from the business man's assumption of risks. Upon the entrepreneur is thrown the primary responsibility for losses and it is by this arrangement that society constantly eliminates inefficient managers and places control of productive forces into the hands of efficient organisers. Society can afford to allow successful organisers to make profits, if, by so doing, it is guaranteed the most efficient control of business enterprise.

Necessary profits are the minimum returns that society must pay to all the employers required to produce the necessary supply of a commodity. The various employers engaged in business may earn differential rates; but the

Profits divided into necessary and differential profits.

marginal producers, who produce the most expensive portion of the supply, just manage to get a fair return on their investment. Prices of commodities must be high enough to allow the marginal employers to secure the minimum of necessary profits. Other employers who succeed in producing goods at less than the marginal cost will secure, not only necessary profits, but also an additional, a differential profit, that depends upon the differences in their costs of production.

Elements in necessary profits :

The necessary profits which all employers get (even the marginal ones) consist of two elements :—

First, they include interest on capital invested, calculated at current market rates ;

Second, they include the remuneration for the efforts and trouble incurred in the management of business. This element is called "wages of management" and has a resemblance to the wages of labour.

Elements in differential profits :

Those employers who produce goods at less than the marginal cost of production, which consumers must pay to recompense the marginal producers, secure differential profits. The amount of these differential profits depends upon the extent of the advantage which the superior producers have over

the marginal producers. This advantage arises from the following cases :—

(1) It may come from superior personal ability variously displayed, for instance, good judgment in purchasing materials, effective supervision, etc.

(2) The possession of patents or other advantages.

(3) Mere chance or good fortune which enables one to get profits on account of fortuitous circumstances.

The differential profits constitute a surplus over the marginal profits and do not affect prices.

Analogy of profits to Rent :

There is a close analogy between profits and rent. As rent arises from differential advantages of fertility or situation, so do profits arise from differential advantages of managerial ability and opportunity. And as the amount of rent is measured by a reference to the produce of the no-rent land, so is the level of profit measured from the no-profit class of entrepreneurs. This is Walker's rent theory of profits. But this theory, according to which neither rent nor profits will enter the cost of production of a commodity, is not accepted by modern economists. We have already seen how marginal profits do form a part of the cost of production and hence the analogy between rent and profits cannot be accepted in its entirety. The

conception of profit as a rent of ability is true in so far as rent is measured upwards, not however from a useless or no-profits entrepreneur (as in the case of no-rent), but from the level of the marginal producer who earns marginal profits and which enter into the price of the good.

Profits, in the sense of the excess of the receipts of a business man over his expenses of production, may be regarded as gross profits. This mixed form of income can be broken up into its constituent parts which are the following :—

Elements of gross profits. (1) Entrepreneur's wages. A part of the business man's profit consists of "wages of management" and is earned for his services as manager or supervisor of business. This managerial duty may however, be delegated to salaried employees.

(2) Speculative gains. Modern business is of a speculative character. There is always the risk that the organiser's expense of production will be greater than the selling price of the commodity. This element of risk is the essence of business and the element of success lies in shrewdness in meeting risks. And this risk-taking function the entrepreneur can not shift on to others.

(3) Chance gains. These arise from purely unforeseen circumstances. There are chance gains as well as chance losses.

(4) Gains from outbargaining the factors of production.

(5) Rewards due to ownership of factors of production. In the gross profits are included rent of land or interest on capital if the business man happens to own the business premises or to own the whole or a part of the capital invested in the business.

CHAPTER 17.

Public Finance.

Contents :—Classification of Public Expenditure. Heads of Public Revenue. Tax. Adam Smith's Canons of Taxation. Benefit theory of Taxation. Equal Payment theory of Taxation. Ability or Faculty theory of Taxation. Proportional and Progressive Taxation : Merits and Demerits. Direct and Indirect Taxes ; Merits and Demerits. Public Debt. Different forms. Loans *versus* Taxes.

Public finance is a department of economics which deals with the revenues of government, expenditure and their administration. Like economics, it deals with the means for the satisfaction of human wants. There are some wants which are satisfied through governmental agency and this is possible only when the government is provided with economic resources. Public finance has therefore to deal with the provision of these resources.

One fundamental difference between domestic and public economy may here be mentioned. An individual tries to square his expenditure with his income. Public officers, on the other hand, decide first upon the expenditures required in a particular year and then proceed to devise ways and means for raising the requisite sum of money. Excepting the business enterprises which government may undertake and from

which revenues are secured, the income of a government is a secondary or derivative income. The public treasury is filled by taking a portion of the income of the members of the state. There is no "magic fund" the state can fall back upon for defraying its expenses.

Classification of public expenditure.

One broad classification is to divide expenditures according as they are national or local. Thus expenditures on services like defence, maintenance of peace, provision of the currency and the like are public expenditures. Expenditures which concern local interests are regarded as local expenditures.

Another division of the public expenditures rests on the following five-fold division :—

1. War functions, such as army, navy, war debts, war pensions etc.
2. Peace functions, such as the promotion of agriculture, education, public health, regulation of currency and banking, administrative costs of state departments etc.
3. Postal service.
4. General governmental functions, the legislative, judicial and executive.
5. Local governmental functions.

Another classification, resting on a similar principle is as follows :—

1. Expenditure on the protective functions.

2. Expenditure on the commercial functions (such as, post office, transport, mint, banking etc.)

3. Expenditure on the developmental functions (such as, education, scientific research, state pioneer enterprises etc.)

4. Expenditure on the maintenance of Government.

5. Expenditure on debt services.

Public Revenue :—

There are six main branches of Public Revenue :

(1) Revenue from domains and public industries. Public domains are agricultural and mineral lands, forests owned by the state and managed in the interest of the public revenue. Governments also conduct many kinds of public industries, such as, water-works, electric plants, railways, postal and telegraph systems etc. Governments also conduct fiscal monopolies like manufacture of tobacco.

(2) Fees constitute another source of public revenue. A fee is a charge for special services which people are compelled to accept whether they will or no.

(3) Miscellaneous revenues, such as, fines and penalties. Governments sometimes are recipients of gifts.

(4) Special assessments which are compulsory contributions, levied in proportion to the special

benefits derived, to defray the cost of a specific improvement to property undertaken in the public interest.

(5) Public loans.

(6) Taxes. These are not based on special services, but are a forced contribution to the general expenses of the Government.

Principles of Taxation :

Taxes constitute the most important branch of public revenue. Taxes may be defined as compulsory contributions exacted by governments from persons within their jurisdictions, for the purpose of defraying general public expenses.

Nature of taxation.

Bastable defines "a tax as a compulsory contribution of the wealth of a person or body of persons for the service of the public powers." A tax thus differs both from a fee and an assessment. A fee is exacted only from persons for whom the government performs some special service. An assessment is collected from people whose property has been improved and enhanced in value as a result of public improvement. Thus in both cases, the justification for the exaction lies in a measurable benefit conferred upon particular persons. The position is entirely different, however, in the case of tax. The measures adopted by a Government for protecting the lives and property of the people and ministering to the general public

welfare do not confer upon any individual member a distinct or measurable benefit. The people are highly benefited by living under a stable and civilised Government. They can also compare the immensity of advantages of life in such a state with that of a community living in a backward or unprogressive state. But they cannot find out the specific benefit or benefits they receive in exchange for the taxes they pay. So taxes are paid under compulsion to enable Government to meet the general public expenses, but the benefits that accrue are benefits of an unassignable nature,

Taxes are either 'progressive' (i.e. graduated) or 'proportional'. They are also either 'regressive' or 'degressive'. Again taxes are divided according as they are 'direct' or 'indirect'.

Adam Smith's canons of Taxation :

Adam Smith, in his classic work, *Wealth of Nations*, laid down four rules or canons of taxation which have profoundly influenced public opinion ever since. These canons may be briefly considered under the following heads :—

(1) Equality. "The subjects of every state ought to contribute towards the support of the Government, as nearly as possible, in proportion to their respective abilities ; that is, in proportion to the revenue which they respectively enjoy under the protection of the state. In the observation or

neglect of this maxim consists what is called, the equality or inequality of taxation". 'Equality, however, means equality of sacrifice and not payment of identical sums of money by every citizen. It is by realising taxes from the people in proportion to their abilities or faculties that justice or equity in taxation is ensured.

(2) **Certainty**. "The tax which each individual is bound to pay, ought to be certain, and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor, and to every other person." In brief, this canon has reference to the state's need of definitely and certainly stating the time, manner and amount of payment of taxes.

(3) **Convenience**. "Every tax ought to be levied at the time, or in the manner, in which it is most likely to be convenient for the contributor to pay it" A tax should be collected at the time and in the way in which it is most likely to conduce to the convenience of the payer. This rule is best illustrated in the method of indirect taxation or customs or excise duties.

(4) **Economy**. "Every tax ought to be so contrived as both to take out and to keep out of the pockets of the people as little as possible over and above what it brings into the public treasury

of the State". In other words, the cost of collecting the taxes should be as little as possible. The Government must economise its expenditure in the gathering of taxes and the operation of taxation should cause the least interference with the industry and commerce of the nation.

In addition to the four canons of taxation modern economists have added a few others.

(5) Elasticity. In the tax system will be included some items which automatically provide for some additional revenue with increase of population and wealth of a country. Income tax is an example of an elastic tax.

(6) Productivity. Taxes should, of course, be productive of state revenue and, in the interest of economy, one tax or a few taxes will be preferred to a multitude of taxes. Also the deriving of a revenue and the development of the economic resources of tax payers should go hand in hand.

(7) Simplicity. The tax system should be simple, plain and understandable by the masses.

Equity or Justice in taxation :

The student of public finance is confronted with the question, what constitutes justice in taxation? Different schools of economic thought have differently interpreted the equity theory of taxation.

One commonly accepted theory is that taxes should be proportioned to the benefits that a citizen derives from the services rendered by the government. This theory is known as the "Benefit theory" of taxation.

This theory is, however, untenable for :—

**Benefit
theory of
taxation.**

- (a) it is impossible to measure in any tangible way the benefits the individuals receive from various governmental activities. Taxes are raised for meeting general expenses and benefits cannot be directly assigned.
- (b) Even if benefits could be computed, the poorer and the weaker members of a state will have to be taxed more heavily than the rich and the strong in the matter of, say, protection of lives and property. And a logical application of this view would mean that a greater burden of expenditure would be thrown on those who are least competent to pay.

Equal Payment theory :—Another interpretation is to ask every member of the state to pay an equal amount of money to what another will pay. This is supposed to rest on the analogy of the postal principle, the same price being realised from every buyer of a postcard, irrespective of the distance it travels. This theory has also been discarded as inequalities of income and equality of payment of tax are clearly unjust. Moreover, the adoption of this

principle would mean that the measure of payment would be the poorest man's capacity to pay and the tax proceeds would not suffice for meeting the expenses of the government.

Ability or Faculty theory of taxation :—The most satisfactory theory by way of ensuring justice in taxation is to ask every member of the state to contribute according to his ability to bear the burden of tax. This theory is thus designated as the "ability" or "faculty" theory of taxation. In the payment of tax a burden is imposed and the tax system should be so arranged that everyone should be called upon to pay as much as he is able to pay.

Accepting the faculty principle as the best rule, the question that presents itself is : how is ability to be measured? Three tests have been laid down for judging a man's ability, namely, property, income or expenditure. Each test has minor defects, but income has the advantage over the other tests in that taxation is a recurring payment as income is a constant coming in. Another advantage of taxing income is that by so doing the glaring inequalities of income may be corrected. Thus, funded incomes (i. e. incomes derived from income-yielding properties) may be taxed more heavily than unfunded incomes (salaries, wages, profits etc. i. e. labour incomes). And this may be achieved by imposing taxes on property as well as taxes upon income. Moreover, a certain minimum sum may be

exempted from taxation, as it is spent for the maintenance of families of possessors of small income.

Proportional and Progressive taxation :—

One important question associated with justice in taxation is whether the rate of tax should be proportional or progressive. The tax is proportional when a fixed rate is imposed, say, 5 per cent on the value of all objects subjected to the tax. So that the owner of large income or property will pay a large amount, and the owner of a small income or property will pay a small amount of tax.

The tax is progressive when the rate increases as the taxable property increases. Thus the progressive income tax may be, say, 1 per cent on incomes up to Rs. 2000, 2 per cent between Rs. 2000 and Rs. 4000 and so on, the rate being higher upon larger incomes.

Progressive taxation rests on the following considerations :—

Basis of progressive taxation. (1) "That the utility of income to individuals generally may be regarded as equal";

(2) that the marginal utility of money falls with increase of income and that with increase of income more and more is spent on luxuries ;

(3) that, in the interest of health, vigour and efficiency of the working classes, taxes should not check the consumption of necessities of life.

It has been urged in favour of progressive taxation that :—

Arguments in favour of progressive taxation. (1) a progressive tax corresponds more than a proportional tax to the demands of justice. The ability to pay taxes probably increases at a more rapid rate than increase of income.

(2) a progressive tax is only just as the possession of a large income gives a person an advantage in the acquisition of future wealth. "The faculty of increasing production often grows in more than arithmetical proportion. The rich man may be said to be subject in some sense to the law of increasing returns". Literally, money makes money.

(3) Progressive taxation is an effective instrument of mitigating the inequalities of wealth and income,

The objections to progressive taxation are the following :—

Arguments against progressive taxation. (1) It is denounced as a measure of confiscation. Any scale of progression will be arbitrary and "once you diverge from the rule of proportion, you are at sea without rudder or compass".

(2) It is said that motives for evasion are stronger and the means of prevention less effective in the case of a progressive than of a proportional tax. But the desire for evasion is less where the burden is less felt.

(3) It is a check to accumulation and leads to exportation of capital. This objection, however, may apply to all sorts of levies.

(4) It is said that productiveness of income is not as great as is popularly supposed.

Direct and Indirect taxes :

Writers upon finance have made a distinction between direct and indirect taxes. Mill defines a direct tax as a tax demanded from the persons who it is intended or desired should pay it. An indirect tax is demanded from one person in the expectation and intention that he should be able to transfer it to another. What thus happens in an indirect tax is the shifting of the burden from the original payer to the final consumers of goods taxed. Thus income, poll, property and inheritance taxes are direct taxes, and customs and excise taxes are indirect taxes. But there are cases where the distinction is not easy to draw. A man paying for the imported good, used for his own purpose, is paying customs duty which he directly bears and so the tax is direct and not indirect.

The advantages of direct taxes may be thus summarised —

- Merits of direct tax.** (1) As income is the ultimate source of taxation, its immediate imposition is the most obvious way of taking a share in the produce for the state.

(2) There is a great facility and low cost of collection and the amount paid by each person is definitely known.

(3) It is an equitable tax and permits of a moderate system of progression to meet the ends of justice.

(4) Direct taxes are elastic and increase automatically with increase of wealth and population.

(5) As each citizen knows how much sacrifice he is making, the civic consciousness is stimulated.

The disadvantages of direct taxes are :—

Drawbacks of direct tax. (1) People's dislike to direct levies is notorious. These give rise to popular resentment.

(2) It renders necessary a valuation of the object charged and thus affords opportunities for evasion and for arbitrary official action.

(3) It is expensive.

Nicholson's conclusion on the two kinds of taxes is :—

"Taking the defects and merits together, we believe that direct taxation ought to be a part of every modern financial system, and that the extent to which it can be carried will depend on the particular conditions".

The advantages of indirect taxes are :—

Advantages of indirect taxes. (1) Indirect taxes are not felt by the payer in the same degree and therefore cause less annoyance than direct taxes.

(2) They afford facility for taxing the smaller contributors.

(3) They are both productive and in times of prosperity elastic without undue pressure.

(4) Taxes on commodities (i.e. indirect taxes) are collected at a convenient time as the payer "pays them by little and little as he has occasion to buy the goods he is at liberty, too, to buy or not to buy, as he pleases"

The disadvantages of indirect taxes may be thus summarised :—

Disadvantages of indirect taxes. (1) Indirect taxes have the double disadvantage of depriving the state of revenue and of diminishing a citizen's own enjoyment. There is a possibility of checking consumption.

(2) It violates the rule of equality as articles of general consumption are used in much larger proportion by the poor than by the rich and hence the pressure of indirect taxation comes on working classes.

(3) Articles of luxury are easily smuggled.

(4) At times of depression the yield of indirect taxes cannot be relied upon. Revenue grows in prosperous years and shrinks in bad ones.

(5) They are not easily extended and reliance on indirect taxes alone causes financial embarrassment.

(6) The loss to society through disturbance of industry is the most formidable objection.

Public debt :

State loans are contracted for three purposes:—

(1) Temporary loans resorted to to cover casual deficits. It is not likely that the estimated expenditures and revenue will equalise precisely.

Hence, in case of a temporary deficit either the state must borrow or budget for a surplus revenue. The latter procedure, however, encourages extravagance, whereas moderate deficit financing conduces to economy.

(2) The most normal occasion for state borrowing is the occurrence of an unexpected emergency, specially the outbreak of war. How far the taxes should be increased, to what extent new taxes imposed and how far the state should resort to borrowing, depends on many complex considerations. In case of a just war, a part of the burden ought to fall on posterity, and hence the state should finance the bulk of the cost from loan funds.

(3) Another occasion for public borrowing is the undertaking of public works and institutions. These works may be divided according as they are productive or unproductive. If the works are productive, the debts may yield an income greater than the interest charges. As regards unproductive works, it has been held, that these are the principal cases for state intervention as the unproductiveness of the works will not encourage private initiative or enterprise.

Different forms of public borrowings :

Public borrowings may take different forms:—

- (1) Funded debt which is either irredeemable or only redeemable at the end of a long space of time,
- (2) Unfunded debt which is redeemable within a comparatively short time.
- (3) Floating debt which is temporarily borrowed and repayable within a year (e.g. Treasury bills).

Loans versus taxes.

Writers on finance are puzzled over the question, namely, what kind of expenditures should be defrayed by taxes and what other kind of expenditures should be financed by borrowing ?

The general answer, of course, is that those expenditures which occur with great regularity and which can be foreseen and estimated must be met by taxation. If the state cannot provide for this, it means sure bankruptcy which comes sooner or later. On the other hand, extraordinary emergency and national misfortunes like war should be met by loans. Some have thought that a loan transfers the cost of a war from the present to the future generation. Others have again ridiculed this idea and maintain that the cost of the war is borne by the present generation and that a loan simply shifts this cost from one group of people to another. The cost of a war is borne by those who wage it in the

sense that the destruction of wealth is the destruction of the present enjoyable goods, the pain or sacrifice is also present and not future. And a loan simply shifts the individual cost.

An advantage which loans have over taxes for meeting the cost of war is that they permit government to secure unequal contributions of capital from different citizens. Loans are resorted to to avoid making taxation very heavy and oppressive. Moreover, the burden ought not to be entirely borne by those who actually carry on the warlike operations. The future generations largely benefit by wars of the present. If raised by loans, the funds are evidently obtained from sources where the least sacrifice is involved in securing them. And so long as the loan remains unpaid the interest may be met from tax funds and the taxes may be equitably distributed on all classes of people.

The war debt may be regarded as a dead-weight debt and the arrangements made to reduce it are the following :—

**Repayment
of Public
debts.**

- (1) Sinking fund method under which money is set aside for the repayment of debt.
- (2) Applications of surplus revenue to the reduction of the loan.
- (3) Redemption by purchase of stock in the market.
- (4) Terminable annuities by which a portion of the debt is completely wiped off.

(5) Conversion, by which one form of loan is converted into another bearing a lower rate of interest.

(6) Another revolutionary or drastic proposal for reducing the national debt is the repudiation of the debt or forced reduction of interest, a very high rate of progression on higher incomes or a capital levy.

BOOK II.

(PART II)

INDIAN ECONOMICS.

INDIAN ECONOMICS

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INDIAN ECONOMICS

CHAPTER I

INTRODUCTORY

Contents : The Natural Environment. The Geographical Situation. Natural Division. Climate. The Monsoons. Soils. Mineral Resources.

Natural Environment. It goes without saying that the economic life of a nation depends, to a large extent, upon the natural environment. If a highly industrially developed country like England owes her prosperity to the natural conditions, these play a special role in India which is more an agricultural than a manufacturing country. For one thing, the physical factors determine the kind of wealth the country is fitted to produce; the occupations of the people, the density of population and the like. Man's progress lies both in the utilisation of the natural forces and also in his mastery over them. The natural environment and man's energies co-operate in the early stages of a country's progress. In the end, civilised man conquers the forces of nature, either harnessing them for his use or making their opposition less stubborn.

The study of Indian Economics should thus be prefaced by a description of the natural environment which may be studied under the following heads :—
(1) the geographical situation, (2) the climate, (3) the

monsoons, (4) the flora and fauna, (5) the geological structure and (6) the means of transport.

The Geographical Situation. In respect of her geographical situation, India is favourably situated. Located at the very centre of the Eastern hemisphere, she occupies a commanding position and her trade routes ramify in all directions. The land routes through the north-western passes and the extensive sea board are of primary importance. Since the opening of the Suez Canal (1870), the maritime trade has come to be of special importance.

India extends over the equatorial latitude varying from 8°N to 37°N and includes extreme climates. Thus the perpetual snow of the Himalayan ranges and the Alpine regions of Kashmir co-exist with the rainless tract of Sind. The hot house of Malabar exists with the extremes of the Punjab.

Natural Divisions. The four well-marked divisions of India are :—

(1) The Himalayan range which forms the land boundary and cuts India from the rest of Asia. The north-east and north-west are bounded by lofty mountains. Thus India is naturally fortified. The Himalayas are snow-capped and the melting of the snow is responsible for the feeding of the great rivers that irrigate the Indo-Gangetic plain. They also regulate the rains, winds, heat, cold and moisture—factors that constitute the base of India's agricultural and industrial life.

(2) The Indo-Gangetic plain is watered by the Indus, the Ganges and the Brahmaputra with their tributaries. This is a land of exceptional fertility. Kingdoms and cities have been founded on it; it was the cradle of the earliest civilisation.

(3) The Indian Peninsula comprises the Deccan Plateau and its coastal fringes. The Peninsula tilts from west to east, from the steep hills of the Western Ghats to the Eastern Ghats which slope into the Bay of Bengal. Deltaic plains on the east are watered by large rivers that flow through the central and southern India. The coastal fringe on the west is narrow and has a copious rainfall. The fertile deltas of the Krishna, the Kaveri and the Godavari constitute the most remarkable feature in the economic geography of Madras.

(4) Burma presents a contrast with India in many respects. The chief geographical features are the series of rivers and hills running from north to south and its fertile valleys. There are variations in climate due to differences in elevation and rainfall. The abundance of forests and mineral wealth plays an important part in the industrial life of the province.

The Climate. The different parts of India present an extraordinary variety in the physical and climatic aspects. "In the north, rise the magnificent mountain altitudes, bound by snowfield and

glacier in eternal solitude. At their feet lie smooth wide spaces of depressed river basins ; either sandy, dry, and sun-scorched, or cultivated and water-logged under a streamy moisture-laden atmosphere. To the south spreads a central plateau, where indigenous forest still hides the scattered clans of aboriginal tribes ; flanked on the west by the broken crags..... overlooking the Indian ocean, and on the south by gentle, smooth, rounded slopes of green upland."

The northern part of India presents extremes of temperature, severest heat in summer and cold in winter. The variation is less marked in the southern part of India. There are similar variations in rainfall which is, by no means, evenly distributed throughout India. This unevenness produces far-reaching consequences so far as the production of agricultural wealth is concerned. The year is divided into two agricultural seasons, the Kharif and the Rabi, the crop of the former being harvested in the autumn and that of the latter in the spring.

The Monsoons. The alternation of the seasons, called the south-west and north-east monsoons, is the primary fact in the meteorology of India. The former is a season of winds of oceanic origin and high humidity and more than 90 per cent of the total rainfall is due to it. The latter is a season of winds, of continental origin and gives only occasional rain, the sky remaining clear or lightly-clouded.

**South-West
and North-
East mon-
soons.**

The south-west monsoon is subdivided into two periods—from June to September, when heavy rain falls in nearly all parts of India, and from October to December, which is the period of the retreating monsoon, when the area of rainfall contracts southwards and the intensity diminishes. After striking Ceylon, it gets divided into two portions and moves upwards towards the west and east coasts of India. The western branch passes over the Western Ghats, depositing a heavy rainfall in transit, then takes a north-eastern direction. This eastern branch moves up the Bay of Bengal, flooding the Assam hills, lower Ganges plains and the Himalayas with copious showers. It then continues its march in a north-western direction and gets deflected across the plains of Hindusthan. Eventually, it meets the mountains of the north and north-west.

The north-east monsoon extends from the middle of December to the end of May. The first portion (January and February) is the cold weather of Northern India and the second extends from March to May.

The rainfall is greatest at the hottest time of the year i.e., midsummer. And it is most needed then. Intermittent showers are of no value in our hot country. Rainfall being heavy and concentrated within a short period, the drawback is removed by the adoption of a special system of agriculture.

The average rainfall for the whole of India is 45 inches, but there are wide variations as between different localities. From the point of view of variability of rainfall, India may be classified into three divisions, namely,

- (i) Areas of unfailing rainfall (Burma, Assam, lower Bengal and Western Ghats).
- (ii) Areas of precarious rainfall and
- (iii) Areas of drought where cultivation is possible only because of irrigation.

The Flora and Fauna. The term 'flora' applies to the plants and 'fauna' to the animal life. India's vegetable products are varied. This is due to her geographical extension, embracing many degrees of latitude, temperate and tropical. It is also due to her surface, rising from sea-level to great heights, to her climates varying from torrid to arctic and also to the importation of foreign plants. Thus wheat, rice, fruits, barley, jute, cotton, potato, pulses, oil seeds, tea, tobacco and the like are grown.

India's animal life is not only varied but abundant. And animal products supply us with food such as milk and flesh, and raw materials of industries, wool, hides, horn and bone. The bullock and the ox are used as draft animals in agricultural operations. Others like mule and ass are regarded as pack animals and used for purpose of transport. Fish is an important element in the

Varieties of vegetable products.

Animal life varied and abundant in supply.

dietary of some provinces. The wild beasts and birds are sheltered in the forests.

Means of Transport. Before the advent of the railways, transport was conducted by agencies like bullock carts, palanquins, pack-animals, river boats and coastal vessels. Both inland and coastal transport had to be effected under limitations. The rivers are flooded in the monsoon period, but get dried in the summer. The material for strong road-making is lacking in many provinces. Delays in transport also formed a great obstacle to trade development. Deficiency in natural harbours acted as a set-back to coastal communication.

The construction of railways has revolutionised trade and produced consequences of a momentous nature. The famine problem has been transformed, village isolation broken, world price established and industrialisation has set in. Ports have been constructed at considerable expense and thereby difficulties of communications along the coasts and overseas have been obviated. The important ports are Chittagong, Rangoon, Calcutta, Bombay, Karachi and Madras.

Geological Structure. The features of India's surface soil and subsoil are important because they constitute the chief foundations of wealth of the country. The Royal Commission on Agriculture in India has recognised four main types of soil :—

(1) The alluvial soils are formed of sediment carried from the mountains by the great rivers.

The soils are fertile and they comprise Bengal, United Provinces, Punjab, Rajputana, **Alluvial soil.** Gujrat, Sind and some portions of western and eastern peninsula. The Indo-Gangetic plains owe their fertility, however, to a certain and well-distributed rainfall.

(2) The "Black Cotton" soil of the Deccan... It is specially suited to the growth of long-stapled Indian cotton plant, but is not conducive to the growth of the shallow-rooted American cotton. **Black-cotton soil.**

(3) The crystalline soil (red or red-brown) covers the whole of Madras, Mysore and portions of Bombay, Hyderabad and the Central Provinces. This soil is derived from the rocks of the archæan system. **Crystalline soil.**

(4) The laterite soils comprise the western Deccan and the neighbouring plains. They are the outcome of decomposition of land due to excessive rainfall and form a belt around the peninsula and traverse through East Bengal into Assam and Burma. **Laterite soil.**

Dr. Voelcker is of opinion that the soils of India are deficient in humus i.e., organic matter and nitrogen, but there is a suitable quantity of lime, potash and phosphoric acid.

Mineral Resources. India's store of mineral products is vast and varied. At one time these acquired a wide fame and in mining, metallurgy and metal

manufacture India was self-supporting. But the importation of cheap European products, after the Industrial Revolution, adversely affected the indigenous metal industries,

Our knowledge of mineral resources of India is still incomplete; even of the known resources, fullest use is not being made. Recent investigations, however, have helped in the opening up of various kinds of mineral deposits. An account of the chief kinds of mineral is given below,

(i) **Coal.** The bulk of the Indian coal (nearly 90 per cent) comes from Bengal and Bihar and Orissa (Raniganj and Jheria), known as the 'Gondwana' Coal fields.

Other coal mines are in Hyderabad and in the C. P. Sources still unexploited are in Burma, Assam, Baluchistan and the Punjab.

It was from the latter half of the 19th century that the output increased, the stimulus coming at the instance of the E. I. Railway Company which began to rely more and more on cheaper Bengal coal than the costly imported British coal. Coal enjoys a virtual monopoly in Bengal and has made an inroad into the markets of Burma, Java, the East Indies and Ceylon.

The coal supply being concentrated, iron mines of the Madras Presidency cannot be fully exploited, and the cotton-mill industry of Bombay has to rely partly on imported south African coal and partly on hydro-electric power (as the freight for coal transport

proves a heavy burden on these industries). The total annual production was valued in 1930 at Rs. 9, 26, 25, 323.

Iron :—The production of iron ore is steadily increasing, India standing second to United Kingdom in the British Empire in respect of output. The U. S. A. produces over 60 million tons, France over 40 millions and India over $1\frac{1}{2}$ million tons. At one time iron-smelting was widespread in India.

In the primitive method of forging, charcoal was used and hence the importation of cheap iron and steel products damaged highly the Indian industry. The modern method of iron manufacture, coal being used for smelting purposes, dates from the year 1875. Since then, rich deposits have been found in Orissa. The vicinity of coal field and iron deposits is of inestimable value, and India is expected to play a more important part in future.

Petroleum :—It is found on the east in Assam, Burma and the islands off Arakan coast; and on the west in the Punjab and Baluchistan, the belt extending to Persia. The eastern area is more important and the important oil fields are located in the Irrawaddy valley. The Yenangyaung field of upper Burma is the most highly developed field in the Indian Empire. The B. O. company was established in 1886 and the Assam Oil Company in 1899. The world's production of petroleum in the year 1930 was $193\frac{1}{2}$ million tons, the U. S. A. contributing 63 per cent of the

world supply, Venezuela 9·7 per cent, Russia 9·5 per cent, India 0·62 per cent. India held the 12th position in the world's petroleum producing countries.

Gold :—The greater part of India's output is obtained from the Kolar gold field of Mysore. Next comes the Hutti mine in Hyderabad which was opened in 1903. Small quantities are produced in the Punjab, C. P. and the U. P. and are obtained by washing. The total production of gold in 1930 amounted to 3,29,232 ounces valued at Rs. 1, 86, 85, 221 and 17,365 labourers were employed.

Manganese :—The most important deposits occur in the C. P., Madras, Central India and Mysore, C. P.'s contribution being the largest. The ore is put to various uses. It is used in manufacturing ferro-manganese for use in steel-manufacture. The glass manufacturers use the peroxide to get rid of the green colour in glass making. It is also used in porcelain painting. Since 1904 the industry has been making remarkable progress. The chief manganese producing centres of the world are India, Russia, the Gold Coast, Brazil, Egypt and Czechoslovakia. In 1907 India's contribution was the greatest in the world supply.

Mica :—India is a leading producer of Mica, she producing more than half of the world's supply. The reported productions in the years 1929 and 1930 were valued respectively at Rs. 26, 59, 759 and Rs. 26, 68, 986. The chief importers of Indian mica are the U. S. A. and United Kingdom. The internal consumption is

negligible. It is used in the electrical industry and in wireless telegraphy. Mica valued at Rs. 90·4 lacs was exported in the year 1929.

Wolfram :—It is the chief ore of tungsten and is needed for the manufacture of high-speed steel required for war purposes. The mining operations in India were started in 1910 and Burma held the leading place in the world. The war time stimulus put the industry into prominence, but it is not making any headway now.

Salt :—There are four sources of supply, besides the amount imported :—

(a) Rock salt is obtained from the salt range and Kohat mines in the Punjab. The former has an inexhaustible supply.

(b) Brine salt obtained from the Sambhar lake in Rajputana, the brine being evaporated by the sun's heat.

(c) Salt-brine condensed on Ranu of Cutch, the brine being evaporated, as in Rajputana, and the salt is known as Baragara salt.

(d) Sea salt factories in Bombay, Madras and the mouth of the Indus.

In Bengal, the manufacture of salt becomes difficult, partly because of the damp climate and partly because of the large volume of fresh water from the Ganges and the Brahmaputra into the Bay of Bengal. Hence Bengal, and for the matter of that Burma, have to depend on salt imported from Liverpool, Germany,

Aden, Bombay and Madras. About 60 per cent of the salt consumed in India is locally produced. The salt industry has a great potentiality and it is hoped that in near future India will be self-supporting in the supply of this necessity of life.

Saltpetre :—It is required for various purposes such as manufacture of glass, food preservation and manure. The production is confined to Bihar, U. P., and the Punjab. It received a stimulus during the Great War, saltpetre being required for munitions. From after the war ceased, the competition of Chile nitrate and the French potash has caused a decline in the Indian industry.

The various other mineral products found in India are silver, lead, zinc, sulphur, copper, tin, and a few others of minor importance. Building stones like sand stones, slates, lime stones and marble are the important building materials.

CHAPTER 2.

POPULATION

Contents : Density. Towns and villages. Birth rate. Death rate. Migration. Over-population. Health. The caste system. The joint-family system.

India covers an area of about 1·8 million sq. miles with a population of 352, 986, 876 millions (as per census return of 1931), nearly one-fifth of the human race. Of this, the area covered in the Indian States is 675, 267 sq. miles with a population of 70 millions. The population represents all the chief ethnological groups of mankind.

The total population of India at the end of the 16th century was believed to be 100 millions. The first, but incomplete, census of 1872 enumerated a population of 206·1 millions. Since then the population has increased. The census of 1921 recorded a population of 318, 942, 480 millions. Hence the population of 1931, compared to that in 1921, records an increase by 10·6 per cent. The rate of progress during the last 50 years has, however, declined. This has been attributed partly to the operation of positive checks such as disease, chronic poverty and misery. Preventive checks like deferment of marriage (or total abstention), and contraceptive practices

Its progressive increase.

A relative decline in progress.

Its explanation. have not yet taken any root in the soil. Prolonged lactation between intervals of birth, however, decreases conceptivity. Scrutiny of birth and mortality rates reveals that both are high in India. The influenza epidemic of 1918-19 caused 14 millions to die and 33·6 million deaths from plague were recorded between the years 1896 and 1921.

Density of Population. As regards density of population, India shows great varieties. Thus in part of Bengal and the U. P., the rural density is above 608 persons per sq. mile, 500 persons in river deltas, 100 to 200 persons per sq. mile on the Deccan plateau and Central India, 297 in Madras, 157 in Bombay, 207 in Punjab, 409 in B & O, 168 in N. W. P., 25 in Sind, 8 in Baluchistan. But in Delhi it is 823 per sq. mile.

The mean density for the whole of India is 137 per sq. mile, 226 in British India and 101 in the Indian states. It may be interesting to note figures for average density in the leading countries of the world.

Belgium—654, Germany—332, France—184, England & Wales—649, Japan—215, Spain—107, New Zealand—12, Netherlands—544, Austria—199, U. S. A.—37 and Egypt 34.

Reasons for high and low density. In the west agriculture, by itself, cannot support a population of more than 250 persons per sq. mile, whereas in the flourishing rural districts of India it is as high as 600. The natural advantages of large and favourable rainfall enables India to support a larger population

than in the less favoured European countries. Other favourable factors have been the tilling of leguminous and catch crops and use of organic manure. In Bengal, the prevalence of supplementary occupations connected with fishing and sericulture, and adoption of rice and jute cultivation, of sugar cane in U. P. and B & O., account for a dense population. The other factors favouring density are a level surface, fertile soil, multiple cropping etc. Reverse conditions, therefore, cause a low density, namely, hilly tracts, or areas under forests, high, precarious, irregular or uncertain rainfall and an uneven surface.

In brief, the density of population may be said to resolve itself into two questions—productivity of the land, on the one hand, and standard of life of the people, on the other. As regards the former, the organisation of agriculture is of permanent value.

The methods of agriculture followed, the distribution of holdings, choice and rotation of crops, the system of land tenure and the land tax are determining factors. As regards the latter, the standard of life in India is, on the whole, simple and not very high for any class of people. It may be stated generally that the variations in density in different parts of India, have been affected by physical configuration, rainfall, quality of the soil, climate and state of industrial and other conditions.

Towns and Villages. The predominance of agriculture and agricultural industries is reflected in

the distribution of the population in rural and urban areas. A high percentage lives in rural areas. Thus 90·5 per cent lived in villages in 1891, but it declined to 89·8 in 1921. The exodus of the villagers to urban places called *urbanisation*, is different for different towns.

A town includes areas having municipalities or Civil Lines or Cantonments and "a continuous collection of houses inhabited by not less than 5000 persons." In the census of 1921, out of a total population of 319 millions only 32½ millions or 10·2 per cent were enumerated as living in towns and cities, the rest living in villages. This is a striking contrast with 79 and 44 per cent of the people as town-dwellers respectively in England and France. On the whole, the villages have retained their position and increase of population in the largest cities has taken place at the expense of towns of medium sizes. Attractiveness of city life, and expansion of industrial and commercial activities may be the contributory causes. This concentration of population, however, has not been an unqualified good. The city mortality is rather heavy, and the disproportion between the male and female population has given rise to the gravest social and moral evils.

Birth and Death rates--All statistics relating to birth rates are unreliable, the error being greater with regard to birth than to death rates. This is due to

the imperfection of the machinery for collection of statistical figures. With this limitation, we may proceed to note the character of the vital statistics.

The birth-rate in British India was 33·6 per thousand in 1925, the corresponding figure being 18·3 in England and Wales. This high birth-rate is explained by the prevalence of early and universal marriage and an intense desire for male children, absence of prudential checks and also high fecundity. Where the standard of life is low, the higher brain centres being inactive, the reproductive centres are vigorous. The biologists' explanation of this high productivity is that an inadequate nutrition of the somatic tissues promotes the activities of the reproductive organs. The result has been that the increase of population leads to poverty which again stimulates a further increase of population. "When a people is poor and sees no prospect of escape from poverty, it is in danger of becoming demoralised. Multiplication takes place without any thought of the future, since the future seems in any case without hope" (Taussig)

Thus the population has increased threefold during the last century. This rate of increase, though small compared to that of the European countries and America, is rather appalling for India, having regard to her agricultural and industrial conditions. And the only checks that operate are pestilence and famine and

prohibition of widow remarriage among certain sections of the people.

A high and unchecked birth-rate and high death-rate go together. At the lowest computation, the death-rate is more than double that of England and Wales. Thus the death-rate in England was 12·3 per thousand in 1927, that in India was 62·48 in 1918 and 24·2 in 1922. Town mortality is heavier than in rural areas (the death-rate in London in 1925 was 11·7 per thousand, that in Calcutta 32·7). This high death-rate is due to a

Causes of high death-rate. plurality of causes such as over-crowding and lack of sanitation in towns, inadequate feeding of poverty-stricken people which

makes them easy victims of malaria, kala-azar etc. The relative death-rate among the different religious communities is instructive. Leaving out the primitive tribes who have the highest death-rate (38·4 per thousand in 1928), that among the Hindus, Mahomedans and Buddhists in 1926 respectively were 26·9 26·3 and 20·8. The Indian Christians have normally the lowest death-rate.

Two facts which strike every observer of India's vital statistics are, first, the high infantile mortality

Peculiarities of India's death-rate. (one-fifth of the children born die before they attain the age of one year). The other peculiarity is the excessive mortality among women of child-bearing age.

The seasonal death-rate is worth noticing. The lowest death-rate occurs during the monsoon months. **Seasonal mortality.** It rises in the winter months and again declines with the warming up of the weather in March and April. It is lowest in the months of June and July.

Migration—The scope for external migration is much restricted. There are economic obstacles also in the way of internal migration. The **Migration: external and internal** population, mostly agricultural, is rooted to the soil. The home-loving character of the people is influenced by the caste-system, differences of language and of social customs. The villagers are also sometimes prevented by the money-lenders from leaving the villages as the chance of recovering the loan would be remote. According to the census of 1921, out of a total population of 319 millions, not more than 30 millions were born outside the district in which they were enumerated. This represents approximately 10 per cent. of the total population. And of these 30 millions, 20 millions were born in districts very near to the district of enumeration. There are practically no legal restrictions on internal migration, except for recruitment in a few Assam tea garden districts.

The census enumerates five types of migration, namely :—

(a) **Casual** migration—here mobility is confined

Five types of internal migration. to neighbouring districts for family, business or social causes.

(b) **Temporary** migration—this takes place when manual labourers join works of public utility like canals, irrigation or railways.

(c) **Periodic** migration—This refers to the seasonal migration of labourers for agricultural and harvesting operations, viz, migration to the Sunderbans, Burma, to the wheat districts of northern India and Nerbada Valley and to the cotton-growing tracts of Berar and the extensive movement from Bihar and the U. P., for work on roads during the winter months.

(d) **Semi-permanent** migration—this takes place when the dwellers of one place earn their living in another, but maintain connection with their homes and ultimately come back, viz, the mill-hands in industrial towns, men in clerical establishments under government etc.

(e) **Permanent** migration—this is of the nature of colonisation, namely in the canal colonies of the Punjab because of improved irrigation.

The result of this kind of emigration is that some provinces lose as others gain in their numerical strength. Thus Assam, Burma, Bombay, Bengal, Mysore and the C. P. stand to gain. The immigrants to Assam are attracted to the tea-gardens, to Bengal

Different provinces as affected by migration.

because of her industrial development (such as jute industry near about Calcutta and the tea industry in Jalpaiguri and Darjeeling districts) and general aversion of the Bengalees for manual work, to Bombay because of the existence of industrial and commercial cities like Bombay, Karachi, Sholapur and Ahmedabad, to Burma because of development of rice and oil-milling industries.

The provinces that stand to lose in population are :—

(i) Bihar and Orissa whence the flow is directed towards Calcutta and Assam ;

(ii) The U. P. whence the unskilled labourers migrate, to Bengal, Bombay, Burma, Assam and the C.P. ;

(iii) Madras—the Madrasis moving towards Burma, Mysore, Bengal, Bombay, Hyderabad and Travancore.

A word may be said as regards **external** migration. The number of Indians settled in various parts of the Empire outside India are distributed as follows :—

| | | | |
|----------------------|----------|--|----------|
| Ceylon | 6,97,000 | Trinidad | 1,37,832 |
| British Malaya | 6,24,009 | British Guiana | 1,31,919 |
| Mauritius | 2,79,143 | Fiji islands | 76,722 |
| Kenya | 39,664 | Natal | 46,683 |
| Zanzibar | 14,242 | | |
| Tanganyika territory | 23,422 | and a few other countries with negligible numbers, | |

The total population living in British Empire is 22, 32, 676. Indians living in *foreign* countries (i. e., outside the Empire) are small in number. The number does not exceed 100,525. Hence the grand total of Indians overseas (in and outside Empire) is 23, 33, 201.

In India over-populated ? The question does not admit of an answer with a simple 'yes' or 'no'. Population, in every country, up to a certain number is a condition of its existence. In matters like defence and production of the means of subsistence such a population is indispensable. Should population, however, exceed the prescribed limit i. e., should there be an excess of population, it would be a matter of the gravest anxiety, as it would mean more people than can possibly subsist. The inevitable consequences would be a lowering in the wealth-producing capacity, a falling off in the national and 'per capita' income and a general lowering of the standard of living.

Under given circumstances, knowledge, state of arts and technique in production, a maximum of population may profitably be employed so that the return from the diverse industries are at their maximum. And such a population is referred to as an "optimum" population. The income per capita is then at its maximum. If the population of a country is below that limit, the industries can

**Meaning of
"optimum"
population.**

be brought to their maximum point of profitability by the adoption of the only remedy, namely, an increase in population. If, on the other hand, that point is already passed, and the returns from the industries show a diminishing yield, the only potent remedy lies in a decrease in population.

Applying this dictum to the Indian conditions, we find that the teeming population of India, far from being regarded with a sense of pride and satisfaction, shows a woeful lowering of the standard of life. The estimates of the national income by different authorities widely differ, the calculation being so complex and difficult. Thus Mc. Kenna's estimate of the per capita income is Rs. 70/, that of Dadabhai is Rs. 20/-, of Lord Curzon Rs. 30 (in 1901). The 'per capita' income, on a most liberal computation, may be taken at Rs. 80. Judged by modern standards, the national income is unduly low and "ninety per cent of the people of India are living constantly in sight of the hunger line."

Low standard of life in India.

There is an urgent need of an improvement in the economic condition of the people, and this improvement, in order to be real, must take place in all directions. For one thing, "the devastating torrent of children must be stopped," not by relying upon nature to carry off the surplus numbers by her own visitations, but by an increase in the standard

Stimulation of agricultural and manufacturing industries, an urgent necessity.

of living and an adoption of prudential restraints on population. On the other hand, the speed of industrialisation must be accelerated, commerce, shipping and banking developed, and adoption of improved and scientific methods of agriculture undertaken. Thus a reduction in the supply of numbers, (brought about by operating on the psychological habits of the people) and an increased demand for population (brought about by increasing the openings in agricultural, manufacturing and transport industries etc.) is expected to create a better adjustment of the forces of supply and demand and thus bring about an amelioration in the condition of the people. As the industrial development has been rather uneven the end may be sooner attained by providing for a mobility of labour from congested to sparsely populated tracts and also by encouraging the people to resort to foreign emigration, at least to combat their extremely home-loving instincts.

Public health, its backward condition. **Health**—During the last half a century improvements in the sanitary conditions of the towns have been effected, but much more remains to be done. The progress of rural sanitation, which involves the health of the bulk of the population, has been very slow. The reason lies in the apathy of the people and the tenacity with which they cling to domestic customs injurious to health. While the inhabitants of the plains of India

are on the whole distinguished for personal cleanliness, the sense of public cleanliness has ever been wanting. Great improvements have been effected in many places ; but the village house is still often ill-ventilated

Reasons for it. and over-populated : the village site dirty, crowded with cattle, choked with rank vegetation, and poisoned by stagnant pools ; and village tanks polluted, and used indiscriminately for bathing, cooking and drinking. That the way to improvement lies through education of the people has always been recognised."

With progress of education, the pace has been speeded up. Under the reforms, sanitation has been a transferred subject, and a considerable section of the people is thinking seriously of tackling public health problems. Even now, as matters stand, the general standard of health is exceptionally low and the position of women is most disappointing.

The deplorable condition of public health may be easily grasped from the comparative study of death-rates of India and the civilised countries of the world. Thus in 1925, India's death-rate was twice that of England and Wales, and almost thrice that of New Zealand. India's infantile mortality rate was $2\frac{1}{2}$ times that of England and Wales and $4\frac{1}{2}$ times that of New Zealand.

There are three main classes of fatal diseases, namely, specific fevers, diseases affecting the abdominal

organs and lung diseases. Many of these diseases are "diseases of poverty" and not diseases peculiar to the tropical climates as formerly supposed. The most effectual remedies may be thus enumerated :—

- Remedies.**
- (i) Better sanitation including supply of pure water, drainage works, better housing and prevention of contamination of food.
 - (ii) Adequate medical facilities.
 - (iii) The best way to stop the high infantile mortality and death-rate of women at child birth is to educate the people in personal hygiene and laws of health.
 - (iv) Multiplication of travelling dispensaries in rural districts.
 - (v) Appointment of sanitary officials and propagation of sanitary informations through co-operative health societies.
 - (vi) Improvement in the standard of indigenous medicine—Ayurvedic and Unani—and establishing of proper control with regard to the qualifications of practitioners, apothecaries and dispensers.
 - (vii) The establishment of women's institutes in villages (already inaugurated in Bengal) which would supply a centre for educational and co-operative activities and also for mother and infant welfare work,

- (viii) Adoption of a more scientific diet would go a long way to improve the general health. Mistakes in diet cause malnutrition and constitute a cause of disease.

Much has already been done by the government and it promises to do more to improve public health, but voluntary efforts must co-operate with government measures if village life is to be revived.

The Caste-System. The census report of 1911 defines a caste as follows :

“A caste is an endogamous group or collection of such groups bearing a common name and having the same traditional occupation, who are so linked together by these and other ties, such as the tradition of a common origin and the possession of the same tutelary deity, and the same social status, ceremonial observation and family priests, that they regard themselves and are regarded by others, as forming a single homogeneous community.”

“The cardinal principle which underlies this system of caste is the preservation of purity of descent and purity of religious belief and ceremonial usage.”

According to the Hindu Shastras, Lord Krishna is the creator of the “Varanasram” which divides the entire Hindu population into four castes, the Brahmins, Kshattriyas, Vaisyas and Sudras.

**Hindu
theory of
origin of
the caste
system.**

The caste-system rests on two principles, namely, the doctrine of 'Karma' (which determines a man's birth and position which he earned in a previous incarnation thus producing a sense of resignation and fatalism), and the religious unity of the family which account for the Hindu joint-family system and the laws of inheritance.

The Mahomedan invasion did not weaken the caste-system, rather Mahomedanism was influenced by it with the result that the Mahomedans have tended to be grouped into exclusive classes.

The caste-system should be distinguished from the numerous social gradations that exist in our country. In the latter, there are no restrictions like marriage and mobility of labour. But under the former, inter-marriage and inter-dining between the different castes are tabooed.

The caste also differs from the European Guilds of the middle ages. These were voluntary and not hereditary associations like the castes. Even strangers could be admitted into the guilds so long as they were not degenerated into close preserves.

The members of a caste are bound by a common occupation. Sir Herbert Risley has mentioned other types of castes which may be briefly enumerated :

- (i) Tribal castes (the 'Bengalee', 'Chandal', 'Bauri' of Bengal.)

- (ii) Functional or occupational castes (e. g. the Brahmins by tradition are priests, the 'Goalas' milkmen).
- (iii) Sectarian castes (e. g. the Lingayat or Vira Saiva caste of Southern India).
- (iv) Castes of the national type (like the Maharrattas).
- (v) Castes formed by crossing (e.g., the 'Khas' of Nepal, the offspring of mixed marriages between Rajput or Brahman immigrants and Mongolian women of Nepal).
- (vi) Castes formed by migration such as the Nambudri Brahmans of Malabar.
- (vii) Castes formed by changes of custom (e.g. the 'Bhuinhars' of Bihar supposed to be Brahmans but losing their status by becoming agriculturists).

The merits of the caste-system may be summarised

Merits under the following heads :

(a) The caste represents a social ideal. A caste-man is a member of a larger unit than the family to which he belongs. The caste is the family writ large.

(b) The caste is the protector of the weak and the helpless. "The caste organisation is to the Hindu his club, his trade-union, his benefit society, and his philanthropic society."

(c) It provides an excellent system of training and minimises the period and expense of apprenticeship.

(d) Particular crafts, confined as they are to certain castes, preserve trade secrets, skill and industry in production.

(e) The skill becomes hereditary, the technical insight is inborn. Heredity is the secret of the Hindu's excellence in the industrial arts.

(f) The individual looks forward to the caste for justice and the caste has power to inflict penalties on the offending members.

(g) Economically speaking, it is a beautiful kind of division of labour which makes for efficient production.

(h) It enabled the Hindus to withstand the shocks of political invasion and counteract many disintegrating tendencies.

The defects of the caste-system may now be **Demerits** stated :

(a) A man's calling is dependent upon his caste. This acts as a drag on attainment of prosperity as the choice of occupation is non-existent.

(b) The higher castes disdain manual labour which is relegated to the lower castes who have to live in segregated areas (Methars in the employ of municipalities). Thus there is no dignity of labour. The lower castes also are accustomed to a very poor method of living regarding food, clothing and shelter, as caste-restrictions condemn their using better quality

of food and the like. Hence if the low caste men earn more, it is wasted in drink, gambling etc.

(c) The methods of production followed are regulated by the caste-system and lead to stagnation. Thus a Rajput, regarded as a born-fighter, disdains to do agricultural work with the result that the lowliest works have to be performed by the humble Jat. It also retards the growth of large-scale enterprise, as no minute subdivision of labour is possible. There are obstacles in the co-ordination of labour, capital and organisation.

(d) In the absence of co-operation between members of different castes, much wastage in consumption ensues.

(e) Religious susceptibilities prevent the destruction of obnoxious pests like jackal and the rat which cause damage to the agricultural crops. "It has been calculated that the depredations of rats cost India some Rs. 60 crores per annum i. e., more than the military defence of the country."

(f) The religious sentiment which pervades the caste system supports a large number of mendicants and devout persons. But frauds have come into being and they also have to be supported by the people.

(g) Caste dinners on auspicious occasions have stimulated extravagant expenditure and chronic indebtedness. A spirit of fatalism is engendered and this explains the co-existence of poor families overburdened with numerous children.

(h) Castes enjoin early marriages * and foster widowhood.

(i) It militates against the principle of equality and a spirit of fellowship between man and man. A false sense of superiority among the higher castes co-exists with a feeling of humiliation under which the untouchable classes have to live.

Conclusion : There are obvious signs that the caste barriers are gradually disappearing. India is now connected with the rest of the world because of the opening up of the ocean and the sea routes. The isolation of the villages is a matter of the past. The whole of India is connected with a net work of railways and a railway travel produces a toleration of feelings, it tends to act as a solvent on the caste system. Western education and the paraphernalia of school and college studies have provoked hopes and aspirations and produced a feeling of universal brotherhood. In a town of today, caste exclusiveness is at a discount. The Government is no respecter of high caste pretensions. Rather backward classes are sometimes given preference in the filling up of vacancies and they are becoming more self-conscious. Literally, a crusade has been undertaken against the rigours of the caste system and Mr. Gandhi is sparing no pains to blot out the curse of untouchability.

From the point of view of both production and consumption, caste system is a most un-

Caste, an insuperable barrier to our economic regeneration. satisfactory form of social structure. It lacks adaptability. Education alone and spread of enlightenment can produce a general fusion of the castes. The sub-castes are already in the melting pot. And no work of social reconstruction can be more urgent, compelling and laudable than the endeavour to bring about a fusion of the main castes. The reformers undoubtedly will meet with stubborn opposition in rural India, but no work can be more genuine and no thanksgiving more heartfelt than the upliftment of the masses by the removal of the caste shackles.

Joint-family system : The Indian society draws its inspiration from the joint family system. The members of a joint family are animated by a lofty ideal. The home, at one time, was regarded as an earthly paradise. An ideal of social service was inculcated. Indian epics, Puranas, folk-lore and even rustic stories are, in the main, drawn from the joint family life. The key notes of the Ramayana and the Mahabharata are devotion of brother to brother (Ramchandra and Lakshman), reverence for the master-guru (Hanuman for Ramchandra), veneration for the guest and a spirit of sacrifice that beggars all description (Savitri, Sita, Behula and others).

Ram Chandra, the God-incarnate, embodies the sanctity of domestic life, piety and a spirit of renun-

ciation of home for the welfare of the subjects. These ideas are deep-rooted in the mind of an average Hindu and "no other nation has given so high a value to domestic duties identifying them so closely with the spiritual."

The origin of the joint family is veiled in obscurity, but thinkers are of opinion that it had its beginning in the transition of India from the pastoral to the agricultural and industrial stages of economic development. A joint family is a patriarchal organisation and is analogous to the *Patria potestas*

It is analogous to the Roman Patria Potestas.

of the ancient Romans. The eldest male member of the family holds a supreme sway, he is a trustee and the promotion of the moral and material interests of the

members is committed to his care. The earnings of the family form a common stock, they are pooled, as it were, and the members are maintained out of the common fund. Hence the blows of fortune are shared by all. Individuals have not to suffer and the necessity for poor-relief does not arise, except in times of dire distress like famine.

The merits of this system may be thus enumerated :

- (i) The manifold family ties bind the members to one another and create a feeling of cohesion and solidarity among them.
- (ii) Every one is sure of his subsistence and so the fundamental condition of economic

progress is fulfilled. Even the widows and the orphans are looked after.

- (iii) The services of the members of a family are utilised according to their abilities. Thus the advantages of a simple division of labour are secured. The advantages of family co-operation are real so long as production is carried on a small scale.
- (iv) Consumption is economical, a small income sufficing to support a comparatively large family, as there is no duplication of household furniture and establishment.
- (v) Family property is held jointly and so the harmful consequences of the laws of inheritance i. e. excessive subdivision and fragmentation of holdings are counteracted.
- (vi) The psychological effects of the joint family system are immense and have already been dwelt upon.

Demerits. Like every human institution, it has its drawbacks which may be summarised :

- (i) It produces stagnation and idleness. Incentive to effort and personal ambition rarely exist. The people are conservative and all economic progress is retarded. Initiative is discouraged and there is loss of personal energy.
- (ii) The members of the family lose their sense of responsibility and self respect. They sit idly and beget children and live the life of

drones. The home becomes a source of endless worry, it is full of jealousies and bickerings of women. Sometimes the whole family is ruined by protracted litigation.

- (iii) It discourages accumulation of capital and development of large-scale enterprises. The members follow stereotyped methods as none is willing to shoulder any risks. Surplus wealth of the family, if any, goes to bedeck the bodies of the women, it does not seek new investments.

Conclusion : The joint family is now a rare phenomenon. Even where it exists, it has lost much of its vitality. Various disintegrating forces are now in operation, namely, opening up of new opportunities facilitated by development of means of transport and spread of education. The spirit of individualism is now pervading all sections of the people. The struggle for existence is becoming keener day by day and joint family has become an anachronism.

**Its gradual
dis-
appearance**

If one were to give his unbiassed opinion as to whether the joint family is doing more harm than good or vice versa, the true answer will probably be that the discussion today is more academic than practical. Individualism and initiative and personal energy all seem to bid good bye to the joint family system.

CHAPTER 3.

Production—Agriculture.

Contents :—Special conditions of land. Cattle problem. Problem of agricultural machinery and implements. Labour problem. Agricultural finance. Difficulties and remedies. Agricultural indebtedness.

Agriculture holds a predominant place in our national economy. The pressure of the population on the culturable land is very intense. During 60 years from 1872 to 1932 population of India has increased by about 50 per cent. Internal security, immunity from famine and control of preventible diseases which take a heavy toll of life, have all combined to bring about this increase of population. Agriculture constitutes the great occupation of the people. In the opening paragraphs of the Montagu-Chelmsford report mention is made of the fact that, "India gives out of every hundred 71 to agriculture or pasture, 12 to industry, 5 to trade, 2 to domestic service, $1\frac{1}{2}$ to the professions and $1\frac{1}{2}$ to Government service or the army." Contrast it with the condition obtaining in Great Britain. "In normal times, a highly industrialised country like England gives 58 persons out of every 100 to industry and only 8 to agriculture,"

Introductory.

Predominance of agriculture.

Special Conditions of Land : Certain relevant facts regarding acreage may be stated. The area sown in British India is $\frac{3}{5}$ the total area, and the area under food crops is $\frac{4}{5}$ the area under all crops. The irrigated area is only $\frac{1}{4}$ of the total cultivable area. Of areas devoted to food crops, rice occupies 25 per cent, wheat and jawar 10 per cent and gram 4 per cent. Of the fibre crops, cotton occupies 7.5 per cent of the total sown area.

Areas under improved varieties of crops are on the increase, thanks to the activities of the Provincial Departments of Agriculture, and it is the natural consequence of the efficacy of improved seeds.

The agriculturists constitute the bulk of the population and the welfare of India depends, in the main, upon their economic condition. One thing that must always be borne in mind is that our wealth lies in agriculture and that the whole structure of our economic life is based on the soils. "The peasant, now as ever, is the chief source and creator of both her wealth and her greatness, and of him it may with truth be said that he is India."

It will be apposite therefore, considering the special difficulties and limitations under which agricultural operations are carried on, to study certain problems that confront the agriculturist in the pursuit of his occupation.

Acreage devoted to various crops.

Certain problems of agriculture. Land problem.

Various causes have contributed to the backwardness of agriculture. Large-scale farming practically does not exist. The average holding is small, generally not exceeding a five-acre unit. Even that area does not exist in a compact mass. The holdings consist of small plots, dispersed throughout the village, and some of these are so small that the cultivator is not repaid the expenses of cultivation. The evils of subdivision and fragmentation of holdings are really serious. Subdivision causes holdings to be smaller and smaller in size ; fragmentation causes holdings to be broken up into separate blocks, often situated at great distances from one another. The former is the result of the laws of inheritance, the latter of the desire of each co-sharer to secure a mathematical accuracy in the share of the holdings of all grades of fertility and situational advantages.

The evils arising from these are :

- (a) waste of time in passing from one patch of land to another leading sometimes to neglect of some ;
- (b) Permanent improvements of land are thus forbidden (such as fencing, buildings, well-sinking) ;
- (c) Use of improved implements becomes impossible.
- (d) Litigation consequent on the passing through the neighbour's land.
- (e) Difficulty of getting either capital or outsider

**Subdivision
and frag-
mentation
of holdings.**

**Evils
arising
therefrom.**

capitalist for specific improvement of land, and so all improvements are at a discount.

Definite attempts are being made to mend matters and consolidation of holdings is being effected, notably in the Punjab, under the auspices of the **Remedy.** co-operative department. But the progress is necessarily slow. Another desideratum is that the cultivators should live in close proximity to their holdings, instead of congregating in villages.

Very interesting discussions have taken place regarding the right size of the holding, called "economic holding." Keatinge defines it as "a holding **True size of the cultivator's holding.** which allows a man a chance of producing sufficient to support himself and his family in reasonable comfort after paying his necessary expenses." According to him, in the Deccan, it should comprise of 40 to 50 acres in a mass with a well for irrigation. According to Jevons, 30 acres would be a model holding in the U. P. He however considers that a high standard of living, and not a mere living standard, is what is desirable.

There has also been a comparative neglect of land improvement. Manuring, drainage and the construction of farm buildings are improvements **Lack of permanent improvements.** which are practically non-existent in India. Manuring helps the soil in the restoration of the nitrogenous compounds of which it is deprived at each cropping. The number of cattle

may be excessive, but there is a shortage of farm yard manure. This is mainly due to the practice of using cowdung as the source of village fuel. The large exports of oil seeds also are responsible for a loss of nitrogen. Insufficiency of manure thus is one of the causes of the backwardness of Indian cultivation.

Cultivation of green-manure crops is slowly spreading, and the use of oil-cakes, specially castor-cake is

Remedy. most helpful in the growing of crops like

sugar cane, tobacco etc. The results of experiments of Provincial agricultural departments show that a better supply of organic manures is important everywhere. Nitrogen is a universal need and phosphatic manures are of advantage in particular tracts. Manuring is slowly coming into practice as a result of village demonstration. And prices of certain artificial fertilisers (like ammonium sulphate) are low and so they are now more widely used. What a great prospect there lies in a fertiliser available in large quantities

Use of night soil and bones of dead animals. and to whose use is due the large success of the German and Japanese system, namely, utilisation of night soil. Prejudice is a bar to its adoption, but greater yield may

gradually overcome it. Prejudice also stands in the way of use of another organic manure, a vast amount of phosphatic manure, "a golgotha, where the bones of all dead animals whiten and decay in ghastly piles." This is lying in abundance in every village, but is practically allowed to go to waste.

The question of improved tillage also resolves itself into a question of water and cattle. So far as the former is concerned, the attention of the government to the importance of providing water for agricultural purpose was drawn long before the Provincial departments were organised. The concentration of the chief rainfall is less than three months of the year and some crops like sugarcane cannot be produced without supplementary watering.

Problems of water and cattle.

The Indian canal system is by far the largest in the world and already irrigates 40 million acres. And the completion of the construction of the vast project of perennial irrigation in Sind taken in hand, will bring the total irrigated area to 55 million acres. Irrigation works not only enhance the yields of the soil, they have also a high protective value. Certain works, unremunerative as they are, have been constructed as an insurance against failure of crops in tracts of precarious rainfall.

Solution of water problem.

Cattle problem—Cattle play a very important role in the agricultural economy of India. So their care and improvement constitute an urgent problem of reform. "Whether it be for supplying manure or for ploughing, or for raising water from wells, or for thrashing grain, or for carrying produce, or for working the primitive oil-mill, the cattle are the principal co-adjutors of the ryots." There is however a tendency to their deterioration. Conditions of climate, ignorance

and apathy of cattle-breeding, neglect, starvation, in-breeding and the anti-castration attitude are the contributory causes. The Indian cattle problem is twofold—**its twofold nature.** that of keeping the existing stock alive and of improving their breed. The former can be effectually solved by providing for their proper food and shelter. The food problem, serious in normal times, becomes intensely acute during times of drought and the fodder reserves have to be strengthened by all means. Extension of arable cultivation retrenches upon lands kept for grazing and fodder cultivation is less profitable than that of food grains or commercial crops. The Agricultural Departments, failing to convert peasants to learn to devote land to fodder crops, have initiated this reform themselves.

The improvement of the breeds of domesticated animals is also another crying need. And the problem of cattle improvement bristles with difficulties. **Steps taken for cattle improvement.** "Maimed, old and worthless cattle are kept alive until they die naturally." Fodder is scarce in supply and cattle are underfed for many months of the year. There is also a lack of care shown in mating cattle.

Much useful work is being done by the Provincial Civil Veterinary Department and the district veterinary dispensaries. They control various diseases by inoculation, segregation and treatment. For maintaining the purity of the best Indian breeds, government bull-

breeding and bull-rearing farms have been operating and they have achieved a large measure of success.

Agricultural Machinery and implements.—

People, in their enthusiasm for agricultural reform, have recommended a large use of improved agricultural machinery and implements. They forget that nothing of the sort is possible unless the area cultivated is sufficiently large. It is well known that agriculture does not provide much scope for use of machinery. Yet it is slowly coming into use and it is gratifying to find that iron ploughs, cane-crushers and water lifts are now having a more extended application. One word of caution, however, is necessary in a matter like this. Such implements only would be used that are cheap and whose spare parts are also locally supplied. There should also exist facilities for repairs. The interesting conclusions of the Agricultural Commission are worth reproducing. "Agricultural implements in India are, on the whole, well adapted to local conditions. They are within the capacity of the draught oxen, comparatively inexpensive, light and portable, easily made and, what is perhaps of even greater importance, easily repaired and they are constructed of materials which can be readily obtained. In spite of these advantages there is undoubtedly very great scope for improvement in the light of modern knowledge of soil conditions". One useful reform, however, is the introduction of harvesting machinery. Instead of cutting the grain by hand, and getting it thrashed out by driving

cattle over it or by the flail and winnowing by the wind, portable machinery and implements may be substituted.

Labour Problem—The human factor in agricultural operations is very defective. Compared to the farmer in the West, the Indian cultivator is lacking in intelligence, capacity, initiative and enterprise. He is lazy, extravagant, fatalistic, apathetic and of conservative habits. The best way to combat these evils is to provide for education of the agricultural classes which is at present in an undeveloped condition.

Inefficiency of agricultural labour.

Education the only effectual remedy.

The demonstration farms constitute a promising line of agricultural education as appalling illiteracy of the masses renders useless the dissemination of information by leaflets, circulars etc. Under existing conditions, therefore, the best educational method is ocular demonstration. The agricultural colleges and research institutes, the thousands of village demonstration plots where the use of improved seed, methods and implements and manures is demonstrated to the cultivators, have achieved considerable progress.

Agricultural finance—The financing of agriculture is another problem of great complexity. The area farmed is small and the peasant can not see his way to adoption of intensive system of cultivation. For construction of wells, which are indispensable for such a purpose, the state grants loans at low rates

Efficacy of co-operative movement.

Agricultural and Land Mortgage Banks.

of interest. He also requires money for purchase of draught cattle, fertilisers, seed and for unproductive purposes like marriage ceremonies. Under the British rule, the credit of the cultivator has increased and with this his temptation to borrow for unproductive objects has also increased. And the money lender alone is in a position to provide the bulk of the capital required for current needs. If he is to be driven away it will be not by usury laws, but by the growth of the co-operative movement, specially by habits of thrift which that movement inculcates. Opportunities for marketing the produce are also unsatisfactory and much is expected of the co-operative movement in this direction.

A thorough promotion of moral prosperity is however not possible with co-operative societies alone. For one thing, these societies can not give long-term loans. Permanent agricultural improvements may be undertaken if Agricultural Banks and Land Mortgage Banks on the co-operative basis are established.

Agricultural Indebtedness—Agricultural indebtedness is as old as agriculture. The cultivators in the pre-British days had to contract loans. In fact the teaching of universal agricultural history is that in every country, predominantly agricultural, the cultivator has to borrow. The indebtedness of the Indian ryot, however, has been aggravated on account of the economic transformation which has taken place in this country. Various estimates have been given as regards the extent

of indebtedness. Nicholson's estimate of the total debt of the rural population of the Madras Presidency was Rs. 45 crores. The Famine Commission of 1901 held that 25 per cent of the cultivators of the Bombay Presidency have lost their lands, less than 20 per cent are free from debt, and the rest are involved in debts. A similar estimate for the Punjab shows that the indebtedness amounts to Rs. 45 crores. The total indebtedness for British India is not less than Rs. 800 crores. The matter for anxiety is not however so much the magnitude of the debt as the object for which it is incurred. In most cases, the loan is spent for purely unproductive purposes and so it presses most heavily on the borrower. The effect is also disastrous as the debtor has to pay an exorbitant rate of interest. And herein lies the tragedy of agricultural indebtedness.

The various causes of indebtedness may be enumerated as follows :

**Causes of
indebted-
ness.**

- (i) Small size of holdings and excessive fragmentation.
- (ii) Improvident habits of the cultivators aggravated by the insecurity of the crops.
- (iii) Recurring losses of cattle due to disease and general deterioration.
- (iv) Litigious habits of the ryots.
- (v) Predominance of agriculture and lack of suitable openings for employment, arising out of the decay of indigenous industries.

- (vi) Extravagant expenditure on marriages and other ceremonies.
- (vii) Chronic poverty of the agriculturist. But poverty is as much a cause as a result of indebtedness.
- (viii) Excessive rate of interest at which money is borrowed.
- (ix) The present system of money lending presenting a contrast to what prevailed in the pre-British days. Formerly, two checks existed on the rapacity of the money-lender, a vigilant village community and an apathy of the state in the matter of recovery of loans. What now exist, instead, is the 'laissez faire' policy of the state, the enactment of civil law and the execution of contract, all working to the disadvantage of the weaker party in the bargain, the borrower.
- (x) The rigidity of the system of collection of land revenue.
- (xi) A rise in the prices of agricultural produce during and after the war period and a consequent enhancement of the standard of life, followed by a fall in price and shrinkage in the credit of the cultivator. Income fell, but not the expenditure. Indebtedness was the inevitable consequence.
- (xii) Under British rule the tenants have got a

better security and so opportunities for borrowing have increased.

Numerous attempts have been made by the Government of India to solve the problem of agricultural indebtedness. The success attained has however been only partial. The remedial measures may be summarised thus :

**Remedies
attempted.**

- (i) The policy of collecting land revenue has been made less rigid and a greater elasticity has been introduced by suspending or remitting the government's share when the crops fail completely or partially. This measure however has not met with any great success.
- (ii) The civil law relating to debt has been amended from time to time. Thus by the passing of the Deccan Agriculturists' Relief Act of 1879 the debtors were protected from the rapacity of the moneylenders as the courts were empowered to go behind the terms of the contract. In spite of legislation of this kind the peasant proprietors continue to be expropriated by the money lender.
- (iii) Restriction of the right of the peasant to alienate his land, applied at first in the Punjab by the passing of the Punjab Land Alienation Act of 1901. This act later on was copied in Bundelkhand, Bombay and Oudh. These

acts prevented the moneylenders from obtaining possession of their debtors' land as it was illegal for land to pass into the hands of non-agricultural classes. Here also the result was far from satisfactory. The borrower's power to raise loans on the security of the land was unduly curtailed. In place of the professional non-agriculturist money lender has been substituted a class of new agricultural money lenders and the evils of usury still persist.

- (iv) To enable the ryot to dispense with the village money lender, government instituted a system of state loans. The acts dealing with state loans (takavi advances) were passed in 1871, 1876 and 1884. The Land Improvement Loans Act of 1883 facilitated the securing of loans from the state for specific purposes of land improvement. By the Agriculturists' Loan Act of 1884 money is advanced for the purchase of seed, cattle and miscellaneous purposes.
- (v) The principle underlying the state loans has been extended in the case of encumbered estates, government advancing large sums of money to save aristocratic families from being ruined.
- (vi) Similarly, management of encumbered estates

is sometimes taken over by the Court of Wards and government arranges to free the estate from encumbrances.

- (vii) As in most cases loans are contracted for unproductive purposes and illiteracy of the ryot makes him reckless and extravagant, efforts are made to give primary education in rural India. The Post Office savings banks have been instituted to encourage habits of investment.
- (viii) All the aforesaid measures of reform were more or less palliatives and did not go into the root of the matter. The eradication of the evil of indebtedness necessitates a thorough overhauling, a transformation of the peasant himself. And what the peasant needs most is education. There is no more potent instrument for promoting rural development than a bold, determined and persistent drive towards the destination of a sound primary education.

Of the various remedies hitherto adopted, the co-operative movement has proved to be

Rural education, a sovereign remedy.

a sovereign remedy as it is a movement of great educational value. Two objects have been achieved, the material advancement of the cultivators and artisans and promotion of thrift, economy, self-reliance and sobriety.

CHAPTER IV

Production—Agriculture

(Continued)

Contents :—The Co-operative system ; system of irrigation ; land settlements ; the harvests ; chief crops ; causes of the backwardness of Indian agriculture ; fruit-growing ; sericulture ; arboriculture. pp. 46-85.

Introductory : The study of universal agrarian history reveals one fact and it is that wherever the conditions of employment are predominantly agricultural, the cultivators have to borrow money. The Indian agriculturist must, therefore, have to obtain loans and his credit being restricted, he pays exorbitant rates of interest to the *mahajan*. And the greater part of his indebtedness owes its origin to borrowing for unproductive purposes. The creditor sometimes manipulates the repayments so as to perpetuate the debts. India is in the grip of the *mahajan*. The bonds of debt thus shackle agriculture. The rankest, most extortionate and merciless usury prevails in India,—usury that "eats the marrow out of the bones of the raiyat and condemns him to a life of penury and slavery".

The Indian money-lender is thus a much maligned person. Hunter, in defending him, however, says that he is the only thrifty person among an improvident

population and because of him that the cultivator carries on his existence from year to year. Another writer, Prof. Radha Kamal Mukherjee, also has a kind word to put in for him. He is the *Jater and patêr mahajan*, the guardian of the raiyat's honour and the supplier of his food. "The mahajan, however, though ubiquitous, is not so base and inhuman or a veritable vampire of the people as many think him to be."

In India, constituted as at present, the money-lender is indispensable. He provides the money without which rural economy would come to a standstill. But it is not his services which one quarrels with, but the price that is exacted for them. Bankers there are many, but no bank and the money-lender still lies safely entrenched behind his money bags to victimise his clients.

Various attempts were made to solve the problem of indebtedness. Laws were passed against usury. But legislation was futile. It was no more effective than "locksmiths could place a bar in the way of love." The other attempts included the passing of healthy tenancy legislation, curtailment of peasants' rights to land alienation, the founding of Postal Savings Banks to encourage thrift and provision of state loans, called *takavi*, in the shape of Land Improvement Act of 1883 (by which loans are given for expenditure on improvements

The high rate of the village mahajan

State efforts to solve the problem

such as wells, embankments etc), and Agricultural Loans Act of 1884 (which authorises outlay for purchase of seeds, implements and so on.) The takavi, however, is highly unpopular with the cultivator who fights shy of it. The borrower is required to pay when he is worst off for money and government has to remit large sums of money, advanced in loans, again and again. At best, takavi proved only very partially effective.

Unpopularity of state loans.

The failure of takavi loans and the increasing urgency of the problem of rural indebtedness resulting in the stagnation and impoverishment of agriculturists (producing in many cases a landless population), led, as early as 1882, Sir William Wedderburn to propound a scheme to start rural banks, to be rejected by the Secretary of State. A few years later, the Madras government deputed Sir F. Nicholson to Europe to enquire into the working of Land Banks and the co-operative movement, and to report on the advisability of starting land and Agricultural Banks in the Madras Presidency. This presidency was considered a suitable field for starting Co-operative societies, as indigenous institutions like the *Nidhis*, comparable to the Friendly and Building Societies of Great Britain, were advancing loans to the poor agriculturists. Nicholson's report which was summed up in two words "Find Raiffeisen" was followed by the publication of Mr. Duperneix's book, "People's

Rejection of a scheme of rural banks.

Nicholson's report.

His advocacy for co-operative credit banks. Bank in Northern India" (in which he advocated the establishment of co-operative credit societies with state subventions). The Famine Commission recommended the formation of Mutual Credit Associations.

Passing of the co-operative credit societies Act of 1904. The final step was taken when a Committee under the chairmanship of Sir Edward Law was appointed to decide on further action. The Committee's recommendation served as the basis of the Co-operative credit societies Act of 1904.

This Act bids fair to rank as the most useful measure and the magic touch of co-operation almost at once conjured up success. "It was a second *veni, vidi, vici*." Societies were launched in many provinces soon after the passing of the Act and the Co-operative movement made rapid strides.

The co-operative system. The theory is that "an isolated and powerless individual can, by association with others, and by moral development and mutual support, obtain in his own degree the material advantages available to wealthy or powerful persons, and thereby develop himself to the fullest extent of his natural abilities. By the union of forces material advancement is secured, and by united action self-reliance is fostered and it is from the interaction of these influences that

Theory underlying co-operative movement.

it is hoped to attain the effective realisation of the higher and more prosperous standard of life, which has been characterised as better business, better farming and better living."

The Co-operative Credit Societies, Act of 1904, This Act provided for the founding of co-operative credit societies. The main object was, of course, to assist the rural population with credit and to encourage thrift, self-help and co-operation among agriculturists. It was intended to help the cultivators and artisans in their economic salvation and moral uplift.

Essential features of Raiffeisen type of societies The foundation principles of the Raiffeisen type co-operative societies may be now enumerated :

Limitation of area of operation. (i) The area of operation is strictly limited. One village one society, one society one village is the rule. This is necessary as the members should know each other's position and character.

No (or small) shares, no dividends (ii) There are either no shares or very low shares so that poor men may become members.

Creation of an indivisible reserve fund. (iii) Creation of a permanent, indivisible reserve fund constituted out of the profits of the society. A co-operative credit society is not to be a dividend hunting institution and hence the profits are to be credited to the reserve fund.

- (iv) **Unlimited liability of members.** The liability of members is to be unlimited. This compels them to keep a vigilant watch in the doings of the society and provides for effective mutual supervision.
- (v) **Loans for productive purposes** Loans are granted to members for productive purposes as the object is to foster thrift, economy and discourage reckless borrowing.
- (vi) **Services gratuitous.** The expenses of running the society are to be minimised. Hence the services of members are gratuitous. The ideal of self-help is always insisted upon.
- (vii) **Recovery by instalments.** Loans are given at moderate rates for relatively long periods with opportunities of repayment by instalment.
- (viii) Promotion of moral advancement of the members.

"And not only are men under it to become more honest, more sober, more thrifty, better educated, more God-fearing, but they are also to become more brotherly, more mutually helpful, more bound together by close common ties."

The co-operative credit societies in urban areas are run on the Schulze-Delitzsch model. The distinctive features of these urban societies are :

Essential features of urban co-operative banks (Schulze type) the liability of the members is limited, the area of operation is wider, the shares are commercial and a part of the profits is distributed as dividends, loans are granted for

short periods only, the administration is paid and efficient and the business rather than the moral aspect of the society is emphasised.

The Act of 1904 provided for the formation of credit societies only. It was subsequently found,

The Co-operative credit societies Act of 1912. however, that the movement could not be confined to credit only. The necessity to bring into existence other forms of co-operation was strongly felt, because it was considered desirable to stimulate economy and frugality among all sections of society.

Extension of scope of the co-operative movement. The Act of 1912 thus authorised the formation of societies for purposes other than credit. This infused fresh energy into the co-operative movement and societies of various kinds came into existence. Prominent among them are societies for sale of produce (agricultural and industrial), for actual production, for cattle insurance, purchase of seed, implements, manure etc. The Act also provided for the formation of three kinds of central societies, as distinguished from primary societies, namely, unions of primary societies, central banks and Provincial Banks. The meaningless classification into 'urban' and 'rural' societies as contemplated in the Act of 1904 was abandoned and societies came to be classified as either 'limited' or 'unlimited' liability societies.

The question which has become persistent is: Has co-operation succeeded in solving all

A critical appreciation of the co-operative movement in India. the economic evils from which India suffers? In the domain of credit, it has been held that co-operation has not been able to completely eradicate the evils of indebtedness. All that it has done is a scrapping of the surface, it has simply touched the fringe of agricultural indebtedness. Nevertheless, it has not been barren of results.

The benefits of co-operation may be thus summed up :
Benefits of co-operation.

- (i) The savings in interest have been considerable. The savings are estimated at one crore of rupees. The local rate of interest having fallen, non-members also get loans at moderate rates.
- (ii) The demoralising effect of borrowing money from the mahajan has been replaced by a system under which credit has become facile, but not unduly facile, and the loans granted by a co-operative credit society are utilised for improvement of agricultural land.

In the Punjab, the consolidation of holdings has been stimulated. "Co-operation is distributing improved implements, improved seeds, fertilisers, feeding-stuffs ; it is teaching farmers to breed, to turn their milk to better account, to make more money out of their sugar-cane, to cultivate cotton to better effect, to extend "irrigation".

- (iii) The banking habit is being slowly developed and the primitive hoards are seeking investments as bank deposits.
- (iv) The close relation between the Co-operative Department and the Departments of Agriculture, Industry, Fishery and Public Health is the precursor of many happy results. Thus problems relating to rural sanitation and cottage industries are being tackled. In Bengal, Co-operative Health Societies like Antimalarial Societies have been started under the auspices of the Department. Night schools have been opened to combat the evils of illiteracy. Milk societies seek to provide with pure milk. In the non-agricultural domain, also, co-operation shows some result. The housing problem of factory labourers and other connected matters are receiving attention.
- (v) The rural depopulation has been counteracted. "Co-operation has taught the people to set up homes for themselves, and how to settle on the land".
- (vi) Finally, the intellectual and moral effects are truly remarkable. The running of a society necessitates the signing of bonds, keeping of accounts and all this has provoked a zeal for literacy. "Litigation and extravagance,

drunkenness and gambling are all at a discount in a good co-operative society and in their place will be found industry, self-reliance, and straight dealing, education and arbitration societies, thrift, self-help and mutual help".

Demerits. Manifold as the blessings are, these should not blind us to the real state of things. Co-operative movement took its birth more than a quarter of a century ago. And inspite of strenuous efforts, the progress is far from satisfactory. **Slow development of the Co-operative movement.** Agricultural co-operation is primarily confined to credit and non-agricultural co-operation is woefully lacking. Out of a total population of 350 millions, only 3.6 millions belong to co-operative societies.

Moreover, evidences go to show that there is not so much lack of capital as need for the cultivators to yet learn the best use of capital.

Negligence. Heavy overdues of repayment of loan is a dis-appointing feature. People are defaulters, **Default.** not because they are unable to repay, but because the principles of co-operation have not been properly understood. Fictitious payments, favouritism, benami loans are not rare occurrences. **Fictitious loans.** In some areas, the village mahajans have crept in and are holding position of secretary. Societies are sometimes maintained

on the principle of class exclusiveness. "Another great difficulty is that credit societies are of no use in the poorest districts". The holdings do not see their way to the repayment of the loan. Hence credit societies are successful in the most prosperous areas. Also, a conviction has gained ground that the co-operative movement is managed by the government, a conviction which is really fatal to the spirit of co-operation. It is education of the masses alone that can produce a true change of feeling. Government has hitherto followed a moderate path, neither holding itself aloof from, nor identifying itself with, the co-operative movement.

Before concluding the subject, a word or two may be said on the utility of Land Mortgage Banks. Co-operative credit societies alone will not succeed to wipe out the colossal indebtedness. In order to introduce capital agricultural improvements, loans for sufficiently long periods are needed. And this may be possible if Land Mortgage Banks are started under the aegis of the co-operative movement.

Irrigation—Irrigation in India is as old as history. It was the special pride of Mahomedan Emperors. Their work lay in the construction of canals as that of the Hindu rulers in the construction of tanks and digging of wells. The

Lack of understanding of the co-operative spirit.

Land Mortgage Banks.

They should supplement co-operative Banks.

Preliminary.

utility of irrigation in a vast agricultural country like India can never be denied. Water is the life blood of the crop and in those parts of India where rainfall is either deficient or irregular, the necessity of irrigation cannot be overemphasised. A deficiency in the expected rainfall causes famine, too much may rot

Necessity and importance of irrigation the crops, and the unduly early or late arrival of the monsoon may wholly spoil the harvest. There are some crops like rice and sugar-cane which require an assured and sufficient supply of water and unless these happen to grow in favoured regions of rainfall, irrigation is of prime necessity. Agriculture in Sind, which is an almost rainless tract, is wholly dependent on artificial irrigation. Here, as well as in the Punjab, irrigation has completely altered the character of the country, as barren wastes have been converted into fertile fields of wheat and cotton. In short, the vast importance of irrigation in India where three out of four persons depend, directly or indirectly, upon agriculture for their livelihood, can better be imagined than described.

Different types of irrigation works. Irrigation works may be conveniently divided into three great types which may be distinguished as—

- (i) lift works represented by wells ;
- (ii) storage works represented by tanks or reservoirs ; and (iii) river works represented by canals.

(i) The construction and maintenance of wells

**Well
irrigation.**

have been, in the main, the result of private initiative. Government has encouraged the construction of wells by a liberal advance of takavi loans (interest varying between 5 and 6½ per. cent.) and by a liberal assessment of land (for land revenue) watered by wells. The tenant is also secured against an increase of

**An index of
agricultural
prosperity.**

rent or of land revenue on account of improvement like sinking of wells. Sir J. Strachey's dictum that "the number of wells is generally a good index of the condition of the agricultural population" is literally true. "For wells are the property of the cultivators themselves, and their construction and maintenance is the expression of their prosperity and energy". The cost of well-sinking is not much but in the case of a deep, permanent well, however, it varies between Rs. 200/- to Rs. 500/-. The water is raised from the wells either by manual labour or bullock water-lifts (where bullocks walk down a slope and pull up the bucket tied to a rope), or Persian wheel or by means of oil engines. Their importance in the aggregate is great and they play a considerable part in the agricultural system of India. Taking the average area annually irrigated from the three types of irrigation works about 30 per. cent. is represented by wells. Well-irrigation is most

extensively practised in the United Provinces, the Punjab, Bombay and Madras and for garden crops throughout India. A recent development has been the putting up of tube wells which bid fair to play an important part in the improved system of irrigation.

- Storage works.** (ii) Storage works or reservoirs have been constructed both by government and private enterprise. These range from small village tanks to great lakes formed by the construction of dams built across the upper reaches of water courses which impound monsoon water that is released for use of cultivation during the dry season. The largest of such works impound several thousand cubic feet of water and submerge many square miles of country. Those, constructed by the rulers of India before the British era, are now maintained as state irrigation works. This kind of irrigation prevails in the ryotwari tracts of Bombay and Madras, in the C. P., U. P., Ajmer-Merwara and in upper Burma.
- River works divided into, Perennial Canals and** (iii) These constitute the most important class of irrigation works. Some river works or canals, of a petty nature, have been constructed and are even now maintained by private enterprise, but the great canals owe their origin and maintenance to the state. The latter

comprise hundreds and thousands of miles of distributory channels. These works are either *perennial* or *innundation* canals.

"Strictly speaking, a perennial canal is one which has an assured supply of water all the year round". This involves generally the construction of head weirs across rivers as starting-places for irrigation canals, in order to control the whole of the flow of the river. But where the head works are favourably situated (as in the Peshwar District), a perennial supply may be assured without the assistance of a weir. Hence a perennial canal is one which can draw off a constant supply of water with or without the assistance of a weir. The Great Anicut on the Cauvery is a work of antiquity and the weirs of the Godavery, Krishna, the Punjab and Sind are irrigation works of marvel from the engineering point of view.

Innundation canals are constructed in such a way as to draw off the river water when it rises above the ordinary low-water level of the river. This happens when the river is flooded and reaches a much higher level. The lands of the Punjab and Sind are irrigated by this device. The defect of it is that the supply of water is scanty when the level becomes low and cultivation is only possible when water flows into the cuts during the flood season. The Lloyd (Sukkur) Barrage, which is the largest single irrigation scheme, is expected to remedy this defect as

the barrage across the Indus will maintain the water level in the canals at a sufficiently high level and thereby assure a flow of water all the year round.

From the financial point of view, the irrigation works, until 1921, were classified as (i) Productive (ii) Protective and (iii) Minor.

Another classification from the financial point of view— Productive irrigation works could only be financed by loans and these were expected to yield a fair return on capital expenditure within a decade. This policy was first initiated by Lord Lawrence and 'productive' public works came to mean those that gave a fair promise of proving directly remunerative.

Protective works and 'Protective' works, on the other hand, gave little promise of proving directly remunerative, but had to be undertaken as a protection against famine. The cost used to be met from current revenue and interest was not charged against such works. The 'Productive' and 'Protective' works together constituted 'Major' works. All works not classed as 'Major' were 'Minor' works. These mainly consisted of indigenous irrigation works constructed by Hindu and Mahommedan rulers and more recently by the District Boards or public-spirited individuals. The maintenance of such works, called 'Minor' works, was undertaken by the Government.

This classification lasted until 1921. Since then the distinction between the above three classes has

been abolished and any work of public utility, productive, or otherwise, can now be financed from loans. Since the reforms, irrigation has become a provincial 'reserved' subject and "only works estimated to cost over fifty lakhs of rupees now come before the government of India for submission to the Secretary of State".

The method of charging for the use of water varies in different localities. Thus in Sind the charge forms a part of the land revenue assessment. In Bombay and Madras differential rates are charged for irrigated and non-irrigated lands. A low charge is made whether or no the water is used in Bengal where the monsoon rarely fails. Except in the aforesaid areas, consumers of water have to pay a special rate, the rate varying according to acreage and the nature of the crop raised.

It goes without saying, that the quantity and quality of crops grown on irrigated are much greater than those grown on unirrigated lands. Besides, heavier crops like wheat and cotton grow best on the former. Moreover, "the whole area gains from the rise of the sub-soil water-level, due to the canal irrigation and from the additional moisture of the air." The real benefit, therefore, accrues to more than the quantity of land actually irrigated. "The irrigation works have made for the security of life, they have increased the yields and the value of the land and the revenue

derived from it. They lessened the cost of famine relief, and have helped to civilise whole regions. In addition, they now yield a handsome profit to the government." The effect of irrigation is best seen in the Punjab where, within less than a generation, canal irrigation has converted the traditional arid land into the best of soils.

The Commission of 1880 opined that in some instances irrigation had an ultimately deleterious effect upon the fertility of land, not only due to **Demerits of irrigation.** reckless use of water, but also to the increase in the number of crops annually reaped. During the nineteenth century, the construction of irrigation works led in some cases to a rise in the level of the subsoil water and to the consequent water logging of soil and the evil of salt effervescence and an increase in malaria owing to the breeding of mosquitos. We must have to be on our guard against excessive irrigation. It should not be forgotten that too much water is as injurious to the crops and to the soils as its deficiency.

Land Settlements :—The relation between the owner and cultivator of land and the rights and status of the tillers are important factors in agricultural production. In India there is no single system of land tenure as the local conditions show great variations. The prevailing systems of land tenure may now be broadly classified.

The principle underlying the land revenue is that the Government is the supreme landlord (though the idea is highly controversial) and as such is entitled to a certain proportion of the produce of every acre of land. The procedure by which this proportion is determined is called a settlement of land revenue.

There are two kinds of settlement—Permanent and Temporary—the basis of the distinction being the period of time for which the assessment runs. Under the permanent settlement, the amount of the revenue has been fixed in perpetuity and remains unalterable for ever. The amount so fixed is paid by the landlord to government. This was introduced in 1793 by Lord Cornwallis. The permanently settled districts cover Bengal, parts of North-Western Provinces and Madras. The effect was that a large number of revenue farmers were converted into landlords and the actual cultivators became tenants under the landlords.

The other kind of settlement is called 'Temporary' under which the state demand is revised at intervals of 20 to 30 years. Temporary settlement has two sub-divisions—the Zamindary system (the Zamindar is otherwise known as the 'talukdar,' the 'malgazar') and the Ryotwari system. Under the temporary Zamindary system, the landlord pays the land revenue to the state, although he may

**Settlement,
its
meaning**

**Two kinds
of
Settlement:**

**Permanent
and**

Temporary.

**Temporary
Settlement
sub-divided
into,—**

**Zamindary
and
Ryotwari.**

cultivate the land himself or with the help of the rent-paying tenants. It prevails in the Central Provinces; North-Western Provinces, Oudh and the Punjab.

Under the Ryotwari system, the cultivator pays direct to the state. He is recognised as the owner of the soil, subject to the superior right of the state to have its share of the land revenue. The principle followed in assessing the land revenue is that the government demand in ryotwari lands shall never be more than 50 per cent of the net rental, i.e. economic rent. Hence a wide margin is left to the tenants out of the "unearned" income from the land. Moreover, the land revenue, under no circumstances, is enhanced on the ground of increase in land values as a result of improvements made by the tenants. And this principle, that improvements effected by private enterprise shall be exempt from assessment has been accepted by government and is provided for in administrative rules. This form of settlement prevails in Madras, Bombay, Burma and Assam.

The state has not hesitated to interfere by legislation to protect the interests of the tenants in Zamindari tracts against the rapacity of the land-owning classes. The Tenancy Acts passed from time to time for the various provinces have given the tenants a greater security than they formerly enjoyed. The need for legislation was most felt

Land revenue is fixed at one-half of the net produce (i.e. economic rent).

Protection of the tenants.

in Bengal where, as a sequel to the permanent settlement, "so far from being generously treated by the Zamindars, the Bengal cultivator was rack-rented, impoverished and oppressed". Thus were passed the

**Passing of
Tenancy
Acts** Bengal Rent Acts of 1859 and the amended Bengal Tenancy Act of 1885 and the Bengal Act of 1907. The objects aimed

at were the fixity of tenure, fair rents and compensation for improvements. Similar acts have been passed in the U. P., C. P., and Madras. To stop the evils of land alienation, the Punjab Land Alienation Act was passed in 1901, an Act which, however, greatly restricted the credit of the cultivator by prohibiting the alienation of his land in payment of debt. The principle underlying this Act has been extended to Oudh, Bombay and Bundelkhand.

**Merits and
demerits of
the perma-
nent settle-
ment.** The merits of the Permanent Settlement are summarised :—

- (i) It avoids the expense and harassment of assessment of temporarily settled areas.
- (ii) There is no temptation to abandon cultivation at the time of revision of settlement.
- (iii) The people living under the permanent settlement lead a fuller and more contented life.

Merits. (iv) The indirect permanent benefits more than compensate for the immediate loss of government revenue.

- (v) Extension of permanent settlement throughout India would have meant that "India would have been spared those more dreadful and desolating famines which we have witnessed in recent years."
- (vi) The cultivators of Bengal are more resourceful and more prosperous and better able to help themselves in years of bad harvest than cultivators in any other part of India.
- (vii) Agricultural enterprise has been fostered, cultivation extended and private capital accumulated which is devoted to useful industries and to public works and institutions.

The demerits of the permanent settlement are as follows :—

- Evils.**
- (i) The tenantry is rack-rented—a fact proved by the need for tenancy laws to protect the interest of the tenants against acts of high-handedness of the zamindars.
 - (ii) The system of extorting 'abwabs' and other illegal exactions by the zamindars from the tenants. This evil, however, is not inherent in the permanent settlement.
 - (iii) The revenue from the land is fixed for all time to come and the government is losing an enormous revenue ; "that if a temporary settlement were substituted for it (permanent

settlement) the government would now be entitled to a revenue of at least 9 crores of rupees per annum from the permanently settled tracts, or double the existing demand".

- (iv) The rest of India has to be more heavily taxed to help the landlords of Bengal to enjoy their purely unearned increment from land.
- (v) If India had been under a responsible form of government, the permanent settlement would have been certainly abolished.
- (vi) The state is justified in cancelling the obligation which has proved to be contrary to the interests of the general tax payer.
- (vii) The permanent settlement has brought into existence a large number of middlemen-landlords between the superior landlord and the actual cultivators. This has brought into prominence the evils of sub-infeudation and means "an increase in the hierarchy of parasites on land". These middlemen landlords live on unearned increment of land incomes, and never think it worth their while to pursue any occupation for earning their livelihood.

The question that presents itself is ;

**Future of
the perma-
nent settle-
ment.**

Should the permanent settlement, regarded as a pledge, continue or should it be abolished ?

Articulate opinion in India, specially in Bengal, seems to regard the permanent settlement as inequitable, but the landlords are too strong for its abolition. They take their stand on the ground that the permanent settlement is a pledge, a sacrosanct, and as such should never be violated. Consideration of justice, however, requires that the sooner the system is put an end to the better. However advisable this may be, nothing like this is capable of accomplishment. The best course now open to government would therefore be to complete the task which was in the contemplation of the authors of the permanent settlement, but which was left uncompleted. The permanent settlement regulated the relation between government and the zamindars only, and the relation between the latter and the actual cultivators was left to be settled by private arrangement. In the interest of justice, the tenants should receive the same sense of security as the landlords have already received. If a law is passed fixing in perpetuity the rent to be paid by the cultivators to the superior landlords, the cultivators would be stimulated to introduce agricultural improvements more freely. Sub-letting will cease to be profitable and thus automatically the middlemen parasite landlords will have to think seriously of exerting their energies in really productive channels for their subsistence. Another way to put an end to this inequity is to impose a heavy tax on incomes from land.

Chief agricultural Crops : Textiles : Cotton is chiefly grown in tropical and subtropical countries.

Cotton. Various species are found wild in India.

Experiments for improving the Indian varieties through the selection of seed and by cross-fertilisations have been tried. Indian soils are not found suitable, however, for introduction of exotic varieties. Of the various fibre crops, cotton is the most important. From the earliest times, India was famous for production of hand-spun and hand-woven cotton goods which formed the principal clothing of the people.

The area devoted to cotton cultivation (in British India and Indian states) in 1928-29 was 43 million acres and the yield was 5.63 million bales of 400 lbs each. About 60 p.c. of the crop grown is exported from India. In 1928-29 and 1929-30, cotton valued at Rs. 66.25 crores and Rs. 65.8 crores respectively was sent out. The chief cotton growing areas are Bombay, C. P. and Berar, Hyderabad, Punjab, Central Indian States and Madras, though cotton, more or less, is grown in all parts of India. The famous "black-cotton soil" of the Deccan is specially suited to the growth of the long-stapled, indigenous cotton plant. But it does not suit the shallow-rooted American cotton.

In respect of acreage and yield, India stands next to the U. S. A. Generally speaking, Indian cotton is short-stapled. The lint is short and coarse in fibre as

compared with that of the American and Egyptian cotton. Hence it is not suited to the manufacture of cloth of higher counts. The continent of Europe, China and Japan are the chief buyers.

The Indian Cotton Committee, appointed in 1917, have been instrumental in checking the abuse of adulteration and promoting better marketing facilities. The agricultural departments also continue their campaign of cotton improvement. And improved varieties as well as improved methods of cultivation have been introduced.

Bengal holds a virtual monopoly in jute production and represents 88 p.c. of the total sown area. It is the most important fibre crop next to cotton.

Jute.

Two varieties of the plant, *Capsularis* and *olitorius* are cultivated. Jute is also grown in Assam and Bihar and Orissa. The crop requires a rich moist soil. Owing to the inundation of the Ganges and the Brahmaputra, this part of India receives alluvial deposit every year and the land is thus able to sustain this exhausting crop without manure. Once planted, the crop requires little attention for a long time. The finishing stages require hard labour. After two or three weeks' submersion in water, called retting, the fibre is removed by washing and beating. Then it is dressed and made ready for disposal.

The total area, under jute, in 1930, was $3\frac{1}{2}$ million acres. The world depression in trade has caused a

decline in demand and the "short crop" propaganda started by the Indian National Congress in 1928 may have partially reduced the acreage.

Jute is called a money crop as the individual cultivator has little need for it. The bulk of the demand comes from the Indian mills which have a strong organisation. It is a highly speculative crop. Although the demand is steady, uncertainties of weather conditions of the crop and extent of demand at any time for jute products, make jute fitted for speculative operations.

In 1928-29 raw jute valued at Rs. 32.35 crores and jute manufactures valued at Rs. 56.90 crores were exported. Germany is the biggest consumer of raw jute, next comes U. K.; the other importing countries are France, Spain, China, Japan, U. S. A., Belgium and Italy. It may be stated that the export of raw jute began on a large scale after the Crimean war which deprived Dundee of the former supply of Russian flax and hemp.

Foodcrops :—Rice is the most extensively grown crop in India, though preponderating in the wetter parts of India, namely, Bengal, Bihar and Orissa, Burma and Madras. The crop grows best in a moist climate with an assured rainfall. Many varieties are grown, these differing in quality and suitability for variations in climate and soil. The better qualities are sown in seed beds and transplanted in the rainy season. Inferior quality of rice is broadcasted and

Rice

is grown in lowlying areas and ripens before the flood season. Deep water rices quickly grow and keep pace with rise in water level. In 1928—29 nearly 83 million acres producing 32 million tons were devoted to rice cultivation.

India contributes 40 p. c. towards the world's production of rice. Burma alone possesses a large exportable surplus and contributed 85 p. c. of the total foreign exports in 1928—29. Exports from India, including Burma, formed 5·6 p. c. of the total estimated production in 1927—28 as compared with 7·6 p. c. in the preceding year. This decline in exports was partly due to bumper crops of Indo-China and Siam leading to a large exportable surplus in the Eastern markets, and partly to the increasing production in the U. S. A., Spain and Italy.

Rangoon, the chief rice-exporting port, is the great centre of the rice-milling industry. It is carried on with up-to-date machinery on a large scale. But the nutritive value of the rice is undermined as the mill-husked rice is deficient in vitamin content. Rice produced by indigenous methods is yellow, but is a more nutritive food-stuff.

Wheat is the staple food of the people of the Punjab, the U.P., and N.W. Provinces. It was sown over 33½ million acres in 1931—32. About 10 p.c., of the entire cultivable area is covered by wheat, it standing next to rice. It is grown as a winter crop,

the Punjab and the U.P. contributing $\frac{3}{4}$ of the total area and $\frac{3}{4}$ of the total outturn. The other wheat producing areas are C.P. and Berar, Central India Sates, Bihar and Orissa and Bombay. India

Wheat. contributes 10 p.c. of the world's production of wheat. As regards production, she holds the third place among the world's wheat producing countries.

Wheat is a rabi crop and is generally sown from October to December and harvested in March and April and the thrashing and winnowing go on till the end of May.

The export of wheat was made possible by the opening of the Suez Canal in 1869. Exports of wheat during the years 1927—28 and 1928—29 were valued respectively at Rs. 441 lacs and Rs. 169 lacs, the greater portion of it being taken up by the U. K. The imports of wheat into India reached the record value of Rs. 817 lacs in 1928-29, the bulk of the supplies coming from Australia.

Indian wheat is mostly classed as 'soft' and contains other food grains due to the method of thrashing employed. Exportable wheat is well-cleaned and is of a high milling quality. The Agricultural Department has considerably improved the quality of the grain, but as yet it is not on a par with the American and Canadian wheats. Indian wheat flour is also exported, the two largest markets in the year 1928-29 being Egypt and Arabia.

Although it is cultivated over a wide area (over 3 million acres), a large quantity of sugar is imported every year. Sugar valued at Rs 15.78 crores and Rs. 16.8 crores respectively was imported in the years 1929-30 and 1928-29. According to the Indian Sugar Committee, the outturn of sugar per acre in India is less than one-third that of Cuba, one-sixth of Java and one-seventh of Hawaii. The crop is mostly grown in the submontane tracts of Northern India, the principal tracts being U. P., Punjab, Bihar and Orissa., Madras, Bombay and Assam. The common varieties are thin and hard and yields not much juice. To remove this drawback, seedling canes of merit have been introduced and the output has been considerably increased. The better methods have been adopted in peninsular India, but the area is strictly limited by the need of irrigation and capital, as sugarcane is a highly expensive crop. The Coimbatore cane breeding station is carrying out valuable research. There is a Sugar Bureaux which provides information and tests improved varieties.

The greater part of the crop is converted into 'gur' and consumed as such. Crystallised sugar is made by indigenous process and factories, with modern methods, produced, in 1928-29, 99,000 tons. And the quantity of sugar imported, mainly from Java, in the same year was above 868,000 tons, valued at Rs. 15.86 lacs. Beet sugar weighing 8400 tons was imported during the year, as against 18,000 tons in the preceding year

Hungary and U. K. holding the lion's share in the import trade.

If the sugar industry is properly organised, it may be hoped, that India may be self-supporting. The sugar industry is now protected by the passing of the Sugar Industry Protection Act of 1932. This no doubt has given a stimulus to manufacture of sugar by adoption of western methods. The yield of modern factories was expected to be 300,000 tons in 1932-33.

Other Agricultural Crops—Tea is the most important plantation crop. The indigenous plant was **Tea**, first discovered in Assam in 1820. Lord William Bentinck deputed a special committee to China in 1834 to obtain seed and Chinese labour for purpose of introducing the crop in the hilly districts of Northern India. After the attention of the E. I. Company was drawn to tea an experimental garden was started in 1835 and the industry received a definite foundation between 1856 and 1859. Special measures were taken to improve the quality by the Indian Tea Association formed in 1899. The Tea Cess Act of 1903 imposed a tax on the sale and export of tea and the proceeds are handed over to the Tea Association for facilitating research.

The two important centres of tea industry are Bengal and Assam, the latter being responsible for half the production. The other tea growing provinces are Madras, Punjab (Kangra Valley), U. P., and Travancore.

The total production of tea in India in 1928 was 404 million lbs, and in 1928-29, 89 p. c. of the product was exported overseas, 11 p. c. being retained for home consumption. In 1927-28, the share of U. K. was 83 p. c. of India's exports. The shares of Calcutta, Chittagong and Madras in the export trade respectively were 64 p. c., 22 p. c. and 14 p. c. It transpires that India supplies 40 p. c. of the world's demand for tea.

The premier plantation industry of India thus is tea and it has enjoyed a long *spell of prosperity*. Under the Ottawa agreement, Great Britain has given preference to Indian tea and this is expected to counteract the competition of Java and Sumatra tea in the British market.

Coffee was first introduced into India from Mecca in the 16th century. The production is confined to parts of Southern India, Mysore, Coorg and the Nilgris. In 1930 the area under coffee was 163,000 acres and the production, 352,000 cwts. The total value of exports was Rs. 94 lacs in 1931-32 as against Rs. 1.92 lacs in 1930-31. The chief importing countries are U. K. and France. The coffee industry was affected by the general trade depression. Besides the general slump of trade, another factor adversely affected the Indian cultivation, namely, the import of cheaper Brazilian coffee in the European markets.

The export trade in indigo began when the Portuguese carried it to Lisbon and sold it to the dyers of Holland. The Dutch East India Company was formed subsequently to oust the Portuguese Company. During the 19th century difficulties arose due to the bad relations between the planters and cultivators. But the area under indigo and exports rapidly increased up to 1897. The decline set in then owing to the competition of the German synthetic dyes. Thus the area in 1914 was one-tenth of what it was in 1896. There was a revival of demand during the War due to the impossibility of obtaining artificial dyes, but since 1918 German dyes have recovered their supremacy. In 1918 a cess was imposed on exported indigo, the proceeds being utilised by Government for the scientific investigation of the methods of cultivation and manufacture of indigo.

Indigo is now grown in Bihar, Orissa, Benares, and Oudh under European supervision and in Madras under Indian control. The exports, no longer of any importance, amounted in 1931-32 to 800 cwts and the total yield in the same year was 11,000 cwts. The two other plantation crops are rubber and cinchona.

In India's export trade, oil seeds possibly rank next to cotton, jute and food grains. The chief crops classified under this head are sesamum, linseed, rape, mustard, groundnuts, cotton seed and castor seed,

Although they are precarious crops and subject to great variations in price, they cover a large area. The total exports were valued at Rs. 17, 86 lacs in 1930—31, but these declined to Rs. 14, 59 lacs in 1931—32. The world supplies were abundant i.e., in excess of requirements.

Linseed requires a moist soil and is grown in Bengal, Bihar, U.P. and C.P. It is of a high quality and sells at a premium in the European markets. Sesamum is grown in peninsular India.

The problem of how to convert India into an oil and oil-cake producing country and an oil-exporting instead of an oil seed exporting country, as at present, is receiving attention. The chief difficulties are :—

- (a) The raw material, but not the finished good, is admitted free of duty by most countries.
- (b) The oil seeds are carried in bulk and easy to handle and so the freight is less than that for oil.
- (c) A fall in oil prices is inevitable on account of abundance of world supplies.
- (d) The Indian oil is said to contain an excess of fatty acids and as such unsuitable for industrial purposes.

Though grown all over India, the notable tobacco tracts are Coimbatore and Godaveri Delta of Madras, Rangpur District of Bengal, Bihar and Orissa., Guzerat in Bombay and the Delta tract of

Burma. It grows in moist alluvium soils with liberal manuring. Great care is needed for its cultivation and hence small holdings are preferred to large ones. The ripening of the crop commences from February and the cutting takes place before the leaves become brittle. The greater part of the tobacco grown is intended for hookah smoking. The lighter kinds are used for cigar and cigarette manufacture. The development of tobacco cultivation in Guntur and neighbouring districts in Madras caused the supply to be large for exports.

The value of exports of unmanufactured tobacco from India is estimated at one crore of rupees. An interesting development is the rapid increase in purchase by China. It is said that "the Indian leaf tobacco makes an excellent filler, but is generally unsuitable for wrappers". Attempts to introduce into India the best varieties of cigarette tobacco from America have ended in a failure. Owing to the preference accorded to the Empire-grown tobacco, a remarkable increase in the use of Indian tobacco in the U.K. has ensued.

In British India the cultivation and export of opium is controlled by Government. The manufacture is a Government monopoly. Opium grown in Indian states, known as "Malwa Opium", may leave the states under a pass system and has to pay heavy duties to the Indian Government. Opium was a prolific source of revenue in the 19th

century. The policy of checking and finally prohibiting export of opium to China (under the agreement of 1907), together with the policy adopted in 1923 of limiting all exports of opium to medicinal and scientific purposes have caused a considerable dwindling in both exports and revenue.

Exports of opium are now permissible only on the production of an import certificate from the governments of the importing countries.

The principal forest products deserve a passing notice. These are timbers, gums, resins, drugs, dyes and tanning materials—lac, tumeric, cutch and myrobalans.

Backwardness of agriculture.

Agriculture in India is in an unprogressive condition and various causes may be assigned to explain its backward nature. The following extract carefully summarises the whole situation and is therefore reproduced below. "In the first place, the outlook of the Indian peasant is fundamentally vegetarian. He does not as a rule eat flesh of any sort, and the production for the market of meat and other animal substances, including even milk and butter, is mainly in the hands of special classes of people, and does not enter into the business of the ordinary agriculturist. Secondly, capitalist farming is an exception; the bulk of the land is occupied in small holdings, cultivated largely by the labour of the peasant

and his family. Thirdly, agriculture is even now largely in the self-sufficing stage ; a supply of food for the household is still the peasant's primary object, although the importance of raising produce for sale is steadily increasing. Fourthly, the climate of the greater part of the country renders artificial irrigation either necessary or desirable, if not for the ordinary staples, at least for the success of the more costly and remunerative crops. Fifthly, the agricultural industry has been subject to frequent periods of entire disorganisation consequent on the failure of the seasonal rains, and resulting in the past not only in the terrible mortality which formerly marked the progress of a famine, but also in the destruction, more or less complete, of the meagre capital employed by the peasant. As the result of this and other causes, agricultural capital has been scarce and dear throughout the centuries which are to any extent open to our observation. Lastly, and on a somewhat different plane, the industry grew up in conditions where iron was a rare and costly product—a fact of which the results are seen not merely in the nature of the indigenous appliances, but in the difficulty experienced by the peasants in maintaining the new implements now placed in their hands. These and other conditions, operating through a period which must be counted by centuries, have combined to produce the Indian peasant as the English found him in the 18th century, and substantially as he is today”

(Quarterly Review, October, 1916 P. 344).

Fruit Growing :—The fruit-growing industry of India is at its infancy. The general opinion, however, is that the varying altitudes and climates of India offer special facilities for fruit growing. The workers engaged in this industry are scattered and considerable advance has not yet been made. The results so far achieved show that the industry has great potentialities under careful selection of trees and proper tillage. Already, in some provinces, better varieties of fruits have been popularised and improved methods of cultivation, packing etc. introduced. A prosperous future is in store for this department of agriculture. And the Agricultural Departments have successfully introduced several new varieties of fruits like plums, pears and lemons. Fruit gardens of a high standard of efficiency are working, on modern lines, in Baluchistan and North West province.

From the economic point of view, the most important fruit is the mango which forms the chief food of the poor for 3 or 4 months in Northern India. Another kind of fruit, supplying large stores of food, the *mañua*, has also importance in point of edibility. Its seeds yield a valuable oil. Certain kinds of fruit like tomatoes, chillies, guavas etc. grow with special care. Fig-culture is a profitable occupation in some

Its undeveloped condition.

Different kinds of fruits grown.

parts of India. Pineapple is a remunerative industry in Madras. Assam grows varieties of oranges and apples. * Date plantation of the Punjab has attained notable success.

The principal markets for the fruits are the urban areas, but as fruits are perishable goods, facilities of transport alone can help in the promotion of the industry on a commercial scale. Application of the knowledge of science in fruit-preservation is expected to widen the area of the market of fruits.

**Possibilities
of deve-
lopement.**

Sericulture :—Sericulture means the growing and reeling of silk. There are three famous Indian silk worms—the *tasar*, the *muga* and the *eri*. *Tasar* is distributed widely on the lower hills and feeds on trees in jungles. The *muga* is found mainly in Assam and Eastern Bengal and feeds on a laurel. *Eri* is a semi-domesticated worm and is reared on the castor-oil plant. Of the three varieties, *muga* silk is most artistic and attractive. The cocoon is reeled easily. *Eri*-silk, on the other hand, is difficult to reel and so it is invariably carded and spun. This occupation is extensively prevalent in the Khasi hills of Assam. Mr. Lefroy is of opinion that *eri* can be reared wherever castor grows.

**Three
kinds of
worms—the
tasar, muga
and eri.**

**Their
compara-
tive ex-
cellence.**

In addition to the above three kinds, mulberry silkworm has been systematically reared for many

centuries. Silk rearing is a difficult affair and unless care is taken in the selection of the seed, diseases create havoc among the worms. **The fourth kind is the mulberry silk worm.** The chief diseases are pebrine (which deteriorates the quality of silk), muscardine, galene and grasserie. The diseases should be eliminated by proper selection of eggs and the rearing house, surrounded by mulberry trees, should be located in the neighbourhood of a pond or river.

Sericulture is most extensively carried on in Mysore (alone contributing $\frac{2}{3}$ of India's total production), Kashmere, Bengal, Orissa, Chotanagpur, Central Province, Assam and Burma.

Numerous experiments for improving sericulture have been made. Pebrine is regarded as the most deadly disease. A vigorous campaign has to be undertaken in fighting this disease. **Experiments in sericulture.** The quality of the cocoons is capable of much improvement by cross-breeding.

Satisfactory results have been obtained in Kashmere and Madras. In the former area sericulture is a state industry. The seed is imported and Italian reeling machinery is used to advantage. In Mysore regular instruction is given to the people in Japanese methods of growing the mulberry and the rearing of the worms. The Bengal Silk committee, under the able guidance of French experts, have successfully conducted cross-breeding experiments for introducing a cross-breed of

European quality. In the Government Sericultural farm at Berhampur a white hybrid is being reared. Certain practical hints on improved methods have been given by Mr. M. N. De, Sericultural assistant at Pusa. Superior thread may be obtained if the reeling machine used in Bengal is improved by the provision of two small pulleys. Improvements in the Bengal silk centres are possible if attention is given to matters like stiffing and storing of cocoons, temperature of the water used in reeling pans and the like.

**Silk
weaving
industry.** The Indian silk weaving industry declined towards the end of the 19th century owing to the increasing competition of imported reeled silk and woven silk manufactured at low prices in France, China, Japan and Italy. Useful research work is now conducted for improvement in weaving also.

Silk schools have been opened and Italian reeling machines are being introduced. The principal silk-weaving centres are Murshidabad, Benares, Surat, Amritsar, Madura, Tanjore and Mandalay. At present there are five silk mills that use power. There is a large home market which can yet be captured, provided raw and reeled silks are considerably improved in quality. And this is the only way to face the world competition. For achieving this, European supervision seems to be obligatory at least for sometime more. In 1931-32 the total value of raw and manufactured silk amounted to Rs. 3½ crores. Most of the silk imported into India comes from China and Japan.

Arboriculture :—Forests constitute an important national asset of a country, specially agricultural like India. It has been remarked that "Among the peasant's greatest needs are firewood to replace manure; small timber for houses and wood for implements, as well as grazing and fodder for his cattle. It has been recognised with increasing clearness that forestry has an important vocation as the handmaid of agriculture".

Importance of Forests.

Policy of Forest Development.

The neglect of forests in the past had exposed India to many dangers and this was perceived in the middle of the 19th century. Lord Dalhousie, accordingly, inaugurated a general policy of forest conservation. The Forest Act of 1865 authorised the Forest Department (meanwhile organised) to take steps for forest conservancy. And the department in protecting the heritage of nature from acts of destruction had to discharge a most unpopular duty. For one thing, it roused the natural antagonism of the agricultural population.

Conservation and Securing a revenue.

The objects kept in view in the forest administration are first, improvement of the yielding capacity of forests to provide revenue for the state, and, secondly, to eliminate the danger of ruthless exploitation. Forest officers are specially trained abroad and in India, local forest schools train forest rangers. A Forest Research

Institute was opened at Dehra Dun in 1906 for conducting an organised forest research. Research is carried on in five branches, namely, Silviculture, Forest Botany, Forest Economic Products, Entomology and Chemistry. A number of forest workshops and experimental laboratories have been opened by the Government of India at Dehra Dun and the success of their activities is phenomenal. Matters like testing and seasoning of timber, wood preservation, pulp and paper-making receive special attention.

Classification of Forests—Reserved, Protected and unclassified.

Forests are classified as Reserved, Protected or Unclassed state forests, the difference resting on the measure of control exercised by the Government of India regarding the rights of user, individuals and the public.

Forest Products.

Forest produce is divided into two heads :—

- (i) Major produce i.e timber and firewood.
- (ii) Minor produce i.e., products like lac, tanning materials, essential oils, turpentine, gums, resins, barks, bamboos, leaves, fibres and animal and mineral products etc.

Forests have been playing a large part in developing the commercial welfare of the country and in providing the people with employment. A vast number of jungle population depends directly on the forests. Large numbers are

Industries connected with forests.

also provided with employment as carpenters, wheelwrights, coopers, boatbuilders, tanners, ropemakers, lac manufacturers, basket-makers etc. Forest occupation is a spare time occupation, the agriculturists devoting their labour in the off-season.

**Utility of
Forests.**

The uses of the forests may be enumerated below :

- (i) Forests have a marked effect on the climate and fertility of the soil. They hold together the fertile surface soil, store water and distribute it gradually. Both disastrous floods and formation of ravines become impossible.
- (ii) Forests attract rainfall.
- (iii) They supply the villagers with materials for house-building and thatching and also with fuel.
- (iv) Forest leaves serve as good manure for the cultivators' fields.
- (v) Forests serve as break-winds and by reducing the velocity of air currents afford protection to cattle, birds and crops.
- (vi) They afford opportunities for the grazing of cattle which is of special value in times of failure of rainfall.
- (vii) They are a source of revenue to the state.
(Under the Reforms 'forests' is a provincial

reserved' subject and in Bombay alone it is a "transferred" subject).

- (viii) They yield various articles of minor produce like lac, silk, wax, tanning materials, wood, oil, varnishes, resin etc.
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CHAPTER 5.

Production—Industries.

What should be the rightful place of India in the modern world of industrialism? There are some who look forward to a great expansion of factory industry. Theirs is the earnest desire that India should take her place in the forefront of commercial life, that she should have again, as in the past, the dominant place in the world's emporium. And India's industrial expansion has been urgent to relieve her congested agricultural industries, to provide employment to agriculturists living in areas of precarious rainfall and to provide for diversified employments. There are others, however, who hope to develop the village life and recreate the cottage industries and thus keep modern industrialism out of India.

In taking a dispassionate view on this question, the special nature of our industrial organisation would not be lost sight of. Cottage industries are still the living forms of this organisation and though they have been discredited in the west, there are special reasons why they persist in India. And in Europe also, in certain special fields, cottage industries have still held their ground. In Germany, for instance, small scale industries employ

$\frac{2}{3}$ of the population ; in Denmark 80 per cent of the establishments contain less than 5 workers apiece. Despite the persistence of this type of industries, the merits of large scale factory system of production are formidable. True, cottage industries have a great vitality in India. But in industries where the advantages of centralisation and large scale production are most conspicuous, (the jute and cotton-mill industries, for instance), in the interest of efficient production, these had better not be discarded. Each type of industry, large and small, has its appropriate field and so the one is supplementary and not a rival to the other.

Cottage Industries—reasons for their persistence. Cottage industries have a great vitality and need not die out. In the 19th century the indigenous industries tended to decline, but since 1900 their decline has been arrested. Their future ultimately rests on the capacity of the cottager to respond to his environments. We may summarise the special advantages which these industries possess and which account for their regeneration :

- (a) Cottage industry is generally a spare-time or by-occupation to agriculture. Agriculture engages the cultivator for about six months of the year, and unless there is some such occupation, the rest of the year will mean enforced idleness. In many places, the

It is a
spare-time
occupation.

agriculturists engage themselves in the slack season, in weaving coarse cloth, rope-making, basket-making and the occupations like these are, as it were, the second string to the bow of the agriculturist. "The professional weaver is frequently a part-time agriculturist, and to the professional agriculturist weaving offers the opportunity of an appreciable subsidiary income".

- (b) The work is carried on within the family surroundings and so not only there is a co-operation between the male and female workers but the work is also of a sustained nature. "The collaboration of the family members not only economises expenses, but sweetens labour."

Both male and female members of a family may co-operate.

- (c) The moral and aesthetic effect of this sort of labour co-partnership is immense. One may contrast this sort of wholesome life with the dissolute life of the up-country mill-hands who succumb to temptations of town life and go back to their homes as physical and moral shipwrecks.

Its moral influence

- (d) Cottage industries are better adapted to meet personal wants and satisfy particular tastes than their large-scale rivals. "This is specially true of the fine arts and the decorative industries which are therefore

Suitability for fine and coarse products.

far more suitable to hand-labour than to machine." Cottage industry is also suitable for production of the coarsest kinds of goods.

Satisfies human sentiment.

(e) Cottage industries offer scope for satisfaction of a peculiar sentiment that a good is made to order.

Small amount of capital is needed.

(f) The amount of capital needed is small and the artisan can ply his independent business without being reduced to the position of a wage earner.

Harmonises with Indian social ideals.

(g) Finally, cottage industries harmonise with our social and ethical ideals.

But a mere stating of the advantages will not rescue the cottage industries from their moribund condition.

The way the cottage industries may be revived.

If they are to be revived, they must be conducted on a co-operative basis. By co-operative finance, the artisans and cottagers may get loans at moderate rates of interest. Borrowing money at high rates from the village money lenders makes the industry unprofitable as no margin of profit is left for the worker. What the

Development of the cooperative spirit in all its phases.

artisan requires is credit facilities, facilities for the supply of raw materials and implements and also facilities for the sale of finished products. Of the various cottage industries prevailing in India hand-

loom weaving is by far the most important and it is persisting with astonishing tenacity. And societies for weavers have been established in all the provinces to finance their needs. The Punjab weavers' societies are affiliated to the co-operative Industrial Bank at Amritsar. This Bank helps the weavers' societies in purchasing raw materials. It also maintains a sales depot.

Another cause of decline of cottage industries is that the cottage workers and artisans have no adequate industrial training. One kind of occupation such as that of the carpenter or the blacksmith is carried on as a craft and success depends on the manual skill and knowledge of the craft. But in another category, such as hand-loom weaving, the product has to compete with organised mill industries, and what is needed is not merely skill. Success depends on commercial factors, use of up-to-date appliances, improvement of design and provision of marketing facilities. The weaver with his present methods of work is an anachronism. Weaving schools and demonstration parties have been organised and they are doing useful works. Another imperative reform is the popularisation of the fly-shuttle instead of the hand-thrown shuttle. Madras has already taken a lead in initiating this innovation. As a rule the cottage industrialist is out of touch with market conditions; he does not know where the customer is, what he

Need of industrial training for technical improvements.

exactly wants and what price he can pay. He sells the goods to the village money-lender who exploits him in many ways. Co-operative marketing organisations in European countries and in America have made a great headway. The cotton sale societies of Bombay also have been attended with success. The cottage worker needs marketing facilities and credit alone brings little comfort to him. And the ultimate solution of the difficulties of marketing lies in co-operation.

One may not perhaps be wrong in concluding that the elimination of the cottage industries is not a concomitant of the expansion of large-scale industries. The hand-loom industry has successfully withstood the inroad of factory production. Traditionally speaking, India is a land of small industries. Even today out of 10 per cent of the population supported by industries, 1 per cent are employed in organised industries and 9 per cent in unorganised industries. A whole list of this type of industries is out of the question. That the surviving cottage industries are not only large in number, but show a great variety, can be gathered from the following list :

Hand-loom weaving ; culture of bees and gathering of honey ; separation of honey from the wax ; bamboo works of diverse kinds ; fishing ; dairying, making of 'ghee', 'khir', 'chhana', 'makham' ; rice and wheat husking ; sugar

**Instances of
cottage in-
dustries**

and 'gur' making ; making of date-sugar, sale of juice and toddy ; oil-pressing industry ; 'attar' production ; pottery works ; carpentry ; silk-industry ; leather-industry ; bangle-making ; metal-industry ; house-building (masons and 'gharamies')

An examination of even the principal industries of India that have been established on a large scale would be beyond the compass of this book.

Large scale industries

The survey of our industrial position leaves one conclusion and it is that the development has been slow and uneven. Commerce is preferred to industry and even in industry the dependence on foreign sources for accessories, machinery etc. is most disappointing. As the Fiscal Commission has said "the

A short descriptive account of some prominent Indian industries

development has not been commensurate with the size of the country, its population and its natural resources." Generally speaking, organised industry has won for it a definite, but limited place. The textile and mining industries are most important, iron and steel industry comes next and then follow a few other industries such as leather, paper, sugar industries.

The cotton mill industry :—This textile industry holds a unique place in our national economy. The first cotton mill industry was started on modern lines with English capital at Calcutta in 1838. But Bombay was destined to be the birth place of the modern

industry and today about $\frac{3}{4}$ of the whole of the mill output is produced in the Bombay presidency. The industry is now undergoing a rapid expansion.

At the time of the great war there were 241 mills in India. In 1930 the number was 305. The industry has also changed its character from a mainly spinning to a weaving industry. Imported yarn is used for the purpose of weaving. During the war period, the industry might have considerably expanded but for the difficulty of importing machinery from Great Britain. The three years following the conclusion of peace experienced unparalleled prosperity. Machinery became cheap on account of the high rate of sterling exchange. But shortly afterwards, a reaction set in with the fall in the rupee. The industry was faced with a crisis. Wages (which rose during the boom period) had to be reduced resulting in a crop of strikes of mill hand operatives. Even the abolition of the cotton excise duty was of no avail.

The industry had naturally to be enquired into by the Tariff Board in 1926 as to whether it required protection, and if so, in what form and for what period. The depression of the industry was attributed to various factors such as ;—

Observations of the Tariff Board on the position of the cotton mill industry.

- (a) the loss of the Chinese market,
- (b) unfair competition from Japan where a larger proportion of women labourers work for longer hours in factories,

- (c) the alleged effects of the stabilisation of the rupee at 1s 6d.
- (d) certain defects of finance and organisation.
- (e) Over-capitalisation and distribution of enormous sums as dividends instead of strengthening the reserve, a real financial defect.
- (f) The Managing Agency system which constitutes a real obstacle to efficient organisation.

Bombay's difficulty was really keen as she was remote from sources of cotton supply, the cost of fuel and power was also large and the rate of wages paid to the operatives was also high. It was thus natural that the up country mills took their birth between 1922—1926, a period of greatest depression in Bombay.

The Tariff Board recommended a bounty for the spinning of higher counts. It pointed out that the depression in the cotton industry was partly due to world factors, but partly to causes peculiar to India. The action taken by the Government in 1926 was a 5 per cent import duty on cotton yarn with a specific minimum of 1/16 pies per lb. This increase affected Japanese imports more than the British imports,

**Government
action on
the Tariff
Board's
report.**

The British cotton industry has lost much of its hold on the Indian market, but the Japanese competition continues to be very formidable. The fall in the value of the yen has subjected the indigenous industry to special risks. What is most needed now is not the policy of protection, but a thorough overhauling and reorganisation of the industry. The cotton industry has now the advantage of a double protection, from the state and also from the spontaneous desire of the people to patronise Indian mills.

The recent tendency has been to spin higher counts of yarn and for this purpose American cotton is imported to supplement the Indian stuff. If the Indian mills will rise equal to the task, they will not have to wander forth in search of customers as 75 per cent of our imports consist of textiles of higher counts.

It may be appropriate to state the history of the tariffs on cotton goods. The Tariff Act of 1894 authorised the imposition of a 5 per cent duty on all imported cotton yarns and fabrics, a corresponding 5 per cent excise duty being imposed on the Indian mill yarn (above 20s). In 1896 the duty on yarn was removed and the duty on fabrics, both imported and excise, reduced to 3½ per cent. Financial stringency during the war time forced Government to raise the import duty to 7½ per cent, later raised in 1921 to 11 per cent. But the excise duty remained all this time unaltered at 3½ per

**Note on the
cotton Ex-
cise duty.**

cent. The duty of 5 per cent on imported cotton yarn was reimposed in 1922, and the excise duty was abolished in 1926.

Jute-mill industry : The jute industry of Bengal is of recent origin. The first jute mill was started in 1855 at Rishra and the first power loom introduced in 1859. The normal progress of the industry was stimulated by the Crimean War which shut out Russian flax and hemp from the world markets. Production in India, however, got ahead of the demand and the need of restriction of output was therefore legitimate. This led to the formation of the Indian Jute Mills Association. If we ignore the trade depression of the last three or four years, it may be said that the history of this industry is one of unbroken progress and success.

Four kinds of jute products are manufactured, namely, gunny bags (for packing purposes), gunny cloth, coarse carpet and cords. The jute industry is highly organised. It is located near Calcutta, both sides of the Bhagirathi being dotted with jute mills. All the mills combine spinning and weaving operations. The chief problem confronting the industry is the labour problem. The supply of labour is drawn from up-country. The method of recruitment by 'Sirdar' on whom both workers and mill managers depend is a drag on efficient management, neither are the housing and social conditions satisfactory.

Coal industry :—The world production of coal per annum is estimated at 1250 million tons, the annual average Indian production being 20 million tons. It is an industry of Bengal and Bihar and of vital importance. It is a key industry, and the supply of good coal is a fundamental condition of industrial progress. Coal however is not a good of uniform quality. It is used either for cooking or steaming purpose. The fields of Raniganj and Jheria are responsible for 90 per cent of the total Indian production.

The consumers of coal, in point of relative importance, are the Indian railways, the iron and brass foundries, cotton mills, Bunker coal, Brick and Tile manufacture. The collieries themselves are also consumers of coal.

In Bombay, where the cotton mill industry is localised, the Indian coal has to meet with powerful competition of South African coal. The latter is fostered by state bounties and appeals are being made to the sense of patriotism of Bombay to patronise Bengal coal.

The coal industry was in acute distress in 1924 as the foreign market was practically lost and the coal trade appealed for protection. The Coal Committee, appointed to advise the Tariff Board with suggestions, were of opinion that the quality of the coal has to be improved by bestowing greater care in the raising,

**Suggestion
of the Coal
Committee
for improv-
ing the coal
industry.**

handling and selecting for foreign markets. And in pursuance of this suggestion an Indian Coal Grading Board was appointed in 1925 (for classifying the different seams at the collieries and preparing a grading list and grant certificates of shipment). The Government accepted the finding of the Tariff Board that imposition of protective duty on South African coal is not advisable.

Iron and Steel industry :—India is rich in iron ore deposits located in the fields of Bihar and Orissa. The supplies of limestone and dolomite are large, but the deposits of cooking coal are rather poor. There are now four concerns engaged in the production of pig iron and steel on a large scale. They are :—

- (a) The Tata Iron and Steel Company Ltd. is situated at Jamshedpur. It successfully conducts the manufacture of steel by modern processes. The "Works" is one of the largest the world has witnessed. It is complete in its paraphernalia, the generating power, laboratories, water supply, Engineering shops, Hospitals, Schools etc.
- Tata Iron and Steel Company Ltd.**
- Thoroughness of its organisation.**
- (b) The Indian Iron and Steel Company Ltd., the Mysore Iron Works Ltd. and the Bengal Iron Company Ltd. The other concerns are (b) The Indian Iron and Steel Company Ltd, (c) The Mysore Iron Works Ltd. and (d) The Bengal Iron Company Ltd.
- The Indian Iron and Steel Company Ltd., the Mysore Iron Works Ltd. and the Bengal Iron Company Ltd.**
- The industry in normal times gives employment to more than 100,000 persons. The consumption of coal is upwards of 2 million

tions and it pays one crore of rupees for railway freight. The steel manufactures are mostly consumed in India, mainly by the railways. The chief export market for pig iron is Japan, the other markets being the United Kingdom and the U. S. A.

The Indian Tariff Board, after making an exhaustive enquiry into the Iron and Steel industry, recommended that it was a fitting case for discriminating protection and legislative protection has been given both by import duties and bounties.

Tariff Board's recommendation for protection and government's acceptance of it.

Sugar industry :—India has a larger area under sugar cane than any other country in the world. In fact she has half the world's acreage. But the normal output is $\frac{1}{4}$ of the world's cane sugar supply. The cane breeding station at Coimbatore (in Madras) has done much in the evolving of improved varieties of seedling canes and supplies new and improved varieties throughout the sugar cane growing areas of India. For some years a sugar Bureaux has been in existence and it furnishes advice to cultivators and mill owners. The quantitative and qualitative improvement of sugar production is vitally necessary and this question was thoroughly investigated by the Sugar Committee, specially appointed for the purpose. It recommended the establishment of a Sugar Research Institute and a large demonstration factory.

Java supplies the largest proportion of sugar imported into India. The methods followed in our country for sugar manufacture are generally crude and there is an appalling wastage at every stage and process of production. The cane crushing method is primitive.

The Indian sugar industry has a chequered history. At one time India was an exporter of large quantities of sugar. The first attack was initiated by Mauritius. The next onslaught came from the bounty-fed beet sugar of Europe. But it rested with Java to force its way most successfully into the Indian markets when the Java sugar ceased to be marketable in America on account of the American preference for the sugar of Cuba (in 1904).

Of late a decline in the imports of sugar into India has taken place owing to—

- (a) Reduced purchasing power of the masses.
- (b) Operation of higher import duties which were raised from 5 per. cent. to 10 per. cent. in 1916, 15 percent in 1921 and 25 per cent in 1922. This rate was further increased in 1931.

The finding of the Tariff Board (1931) was that the sugar industry should be protected as it fulfilled the conditions laid down by the Fiscal Commission. The protective duties thus recommended were to remain

in force for 13 years. The legislature has sanctioned the imposition of a duty of Rs 7/4 per cwt. on sugar and a duty of 25 per cent "ad valorem" on molasses.

Of the various plantation industries, the most important are the tea, coffee, rubber and cinchona industries. Indigo industry is now thrust into an insignificant position.

There are also in existence chemical industries such as manufacture of sulphuric acid, sodium bicarbonate and caustic soda (needed for many industries), vegetable oils, soaps etc. A few miscellaneous large scale industries like rice and flour mills, manufacture of artificial silk, match industry, paper industry, cement industry, tobacco industry seem to be industries of promise.

Labour conditions in agriculture :—Before the appointment of the Royal Commission on Indian Agriculture (1926), the question of the efficiency of agricultural labour received but scant attention. And hasty generalisations that were made from time to time did not bear any fruit. The impression that the Indian cultivator is an indifferent worker, dull-headed, without enterprise and efficiency, has long prevailed. One general conclusion may, however, be accepted, that our agricultural labourer is rather inefficient. The comparative results in reaping and ploughing show that a week's work of a Madras ryot is equal to a day's

Inefficiency of Indian agricultural labour.

work of a British agricultural labourer, if unaided by machinery. On the average, the Indian cultivator during a year does only what would, on British standards, be the work of a month only.

. But comparisons such as these are rather misleading. The conditions of climate, physical vigour, facilities of diet and the equipment of improved implements and machinery have certainly considerably increased the productiveness of the British labourer. Judged by these, the Indian confrere has to work under great disadvantages.

. The Agricultural Departments are doing their level best to teach the cultivators the value of new methods of cultivation. But the peasant, for successful farming, has yet to become more assiduous and persevering.

There is need for exercise of prudence, judgment, forethought and watchfulness, conditions indispensable for utilisation of scientific knowledge. Agricultural occupations do not ordinarily favour mental development. The instinct and insight of the agriculturist die with him. Dependent as he is on the monsoons and seasons, a sense of helplessness is engendered and a depressing effect is produced. One cause of the ineffectiveness of labour is the unsuitable kind of education that prevails. The farmer is steeped in illiteracy. But the conferring of valuable peasant rights and security of tenure have endowed him with better opportunities to improve his economic position. Thrifty he is not and the necessity of applying borrowings to produc-

tive purposes can not be inculcated. He cannot resist the temptation of contracting indiscreet loans wasted in extravagance. The inevitable day of repayment comes and the cultivator is expropriated. The uplift of the masses rests on a system of education really broad-based. The co-operative credit movement is expected to produce most far-reaching consequences and it is a force of educational value.

The above is a picture of the average Indian agriculturist and the prevailing system of cultivation. Agriculture, however, needs a better organisation, creation of salutary social conditions and provision of educational facilities. Otherwise attempts to foist on the cultivator better crops and implements would prove only a partial success. Dr. Voelcker, truly conscious of the great limitations under which our cultivators have to work, had a real grasp of the situation. The eloquent tributes that he has paid to the "hard labour, perseverance and fertility of resource" are the outcome of an appreciation of the odds under which agricultural operations are carried on in India.

An economic study of the conditions of rural labour world justify a passing reference to its alleged scarcity, Census statistics show that the proportion of the population supported by agriculture is steadily increasing. The persistent cry that sufficient numbers of agricultural labour are not available therefore sounds like a paradox. As a matter of fact there is a super-

**Alleged
scarcity of
labour
supply.**

fluity of labour in rural India, yet there is a complaint of its scarcity.

By way of explanation it has been suggested that the temptation of daily wage offered by the forest contractor causes a migration of the rural population. New manufacturing industries also entice away some labouring population. Moreover, the influenza epidemic of 1918 took a heavy toll of their lives (it caused no less than one crore of deaths).

The real shortage applies to skilled and not to unskilled labour.

Another cause of the scarcity is the withdrawal from the ranks of workers of numbers or their working for shorter hours on account of rise in agricultural wages and increase in prices of agricultural products. This is said to have created a leisured class who stay on because of a low standard of living. On the whole, it remains true that there is no real shortage of *unskilled* labour. If such labour is not available it is because the wages offered are not sufficiently tempting. If there is any shortage it is in the ranks of skilled labour,—artisans, fitters, mechanics, expert foremen, trained supervisors. But the potential supply of labour is unlimited.

Labour conditions in industries—The complaint about the scarcity of jobs for industrial labour is frequently given expression to by politicians. The complaint of the industrialist, however, is that there are enough jobs, but no adequate supply of factory

operatives. The element of truth in these contradictory statements is that the alleged scarcity is the outcome of the nature of the labour supply.

Industrial labour supply is intermittent, migratory and inefficient.

The supply is *intermittent, migratory* and *inefficient*. The alleged superfluity of labour similarly is the outcome of the paucity of organised and predominance of agricultural industries. Neither are there sufficient industrial openings, nor sufficient numbers of efficient labourers. Hence references about insufficiency and inefficiency of Indian labour contain each an element of truth.

The peculiarities of the Indian industrial labour may be briefly enumerated :

The operatives work for prolonged hours.

(i) The operatives generally have to work for long hours and under indifferent supervision and so they do not develop regular and steady habits of work.

Climatic disadvantages.

(ii) Climatic conditions, lack of proper nourishment and liability to preventable diseases enfeeble the physique. A change for the better may ensue if working hours are shortened and steps taken to protect their health.

Intermittent supply.

(iii) Intermittent nature of the supply of labour. About 10 per cent of the industrial labourers are perpetually absent and 30 per cent are invariably absent during harvest time. The absentee statement shows that the

worker takes two off days every month (in addition to 4 Sundays), and an annual holiday up to 7 weeks, in addition to Indian holidays for 12 days every year. The employer is rarely notified cases of absence and so the industry runs the risk of being disorganised.

**Agricultural
character
of industrial
labour.**

- (iv) The bias of the industrial worker for agricultural occupations makes him an inefficient worker in the skilled industries. It is said in support of this statement that the English labourer is $3\frac{1}{2}$ to 4 times as efficient as the Indian. But the entire responsibility cannot be foisted on the operative. The efficiency of labour depends upon equipment and environment, both of which are far from up-to-date. The machinery employed is not modern, the raw material with which he is supplied is also inferior. Another apology for this marked difference in efficiency is that although the Indian operatives possess adaptability, the modern type of organised industries is of recent origin and it is too early to expect a class of industrial workers possessed of inherited skill. This is why the Industrial Commission have praised the skill and intelligence of the operatives of Bengal and Bombay, the first homes of organised industries in India.

- (v) **Paucity of trained industrial labourers** There is an obstacle to our industrial expansion and it is the scarcity of trained industrial labour. There is plenty of men but because they are content with a low standard of life, they prefer to work less and take longer rests to sustained labour even when wages are rising.
- (vi) **specialty with technical knowledge.** This scarcity is most noticeable in the case of labour with specialised knowledge such as foremen, supervisors etc.
- (vii) **Business management is also inefficient.** The inefficiency of labour is accentuated because of the lack of efficient management of industries and of opportunities of industrial training.

The Wage Problem—Judged by modern standards, the Indian operative is certainly poorly paid. The war, necessitating increased production, gave a stimulus for an increase in wages. The rise in prices has caused wages to go up, though wages have lagged behind prices. And the factory labourer has also enjoyed the benefit of the rise in wages which has been marked from 1917. The prevailing rate of factory wages has provoked an unending criticism.

Are wages really high or low ? Two extreme views may be noticed. The capitalist-employer says that the operative earns far more than he is worth. The other

view is that the scale of wages is scandalously low and that for the money the Indian mill-owner pays, he extorts more than double the work that an English mill-owner does, and that it is criminal for the employer to exploit labour which may be cheap, but certainly life is not cheap.

One indispensable condition for improvement of efficiency is the enhancement of wages. And the employer is also paid in the long run as higher wages result in increased efficiency. But one paradox, peculiar to this country, is that a rise in wages diminishes the supply of labour. The labourer, as already noted, works for fewer days and does not generally respond to the stimulus offered by higher wages.

Housing and sanitary conditions—In the interest of the health of the workers, the housing condition should be improved. Bad housing gives rise to deterioration. The industrial centres are congested and insanitary. The 'bustis' and 'chawls' are notoriously overcrowded and ill-ventilated. The ground floor rooms are pitch dark and damp as the plinth is not high; the courtyards between buildings are too narrow to admit of air and sunrays. The water supply is insufficient and an insanitary smell surrounds the whole atmosphere. It goes without saying that national consideration requires the protection of the health of the workingmen and this is a prime requisite for increase of their efficiency.

Conditions totally unsatisfactory.

Welfare work—The work done in the factories is exhausting and strenuous and measures calculated to improve the health and ameliorate the conditions under which the workers live are highly welcome. A systematic campaign of public health should be undertaken in earnest in urban areas. But the work of regeneration mainly rests upon the labourers themselves, and the problem after all is more moral than economic. The co-operative movement is full of potentialities and the labourers have to be thoroughly imbued with the co-operative ideal. It is up to the employers also to take a humane view and initiate liberal and far-sighted policies such as providing the labourers with good houses, cheap grain shops, grounds for recreation, libraries, clubrooms. A few individual employers have organised useful works on modern lines. And the first organised attempt to introduce welfare activities were made by the Bombay Millowners' Association in 1932. This body has encouraged periodical social gatherings of workpeople, the providing of free mill dispensaries when finances permit and the establishment of creches at every mill.

Factory legislation :—Until 1913 the conditions of factory labour were regulated by the Factories Act of 1881 and the amended Act of 1891. By the latter Act the hours of employment for women were limited to 11 with 1½ hours' rest in the interval and their employment between 8 p. m. and 5 a. m. was generally prohibited,

**Steps taken
by the
govern-
ment.**

Children's hours of work were limited to 7 and employment of children (i.e. below 14 years) at night was forbidden. Children below 9 were not to be employed. The machinery had to be fenced and rules were laid down regarding water supply, prevention of over-crowding, ventilation etc. Another Act was passed in 1911. Seasonal factories (i.e. those working for less than 4 months of the year) came under the scope of the Act. It shortened the hours of work for children and women. The ensuring of safety and health of the operative was better provided and certain special provisions were made for textile factories. It was laid down for the first time that no adult male shall be employed in any textile industry for more than 12 hours in a day. Children's hours in this industry were also restricted to 6 hours. No work was to be done between 7 p. m. and 5-30 a. m.

If an additional proof is needed of the government's **Place of India in the international labour movement.** readiness to uphold the legitimate interests of the operatives, it is the position created for India (as one of the signatories to the Peace Treaty) as one of the original members of the International Labour Organisation. Labour in India is internationalised. The conventions adopted by the International Labour Conference held in Washington in 1919 were ratified by the Government of India in 1921. This meant a radical revision of the Factory Act of 1911 and the amended Act was passed in 1922. Many important reforms were introduced

such as the adoption of a 60 hours' week, the raising of the minimum age of children from 9 to 12 and forbidding night work for women. Certain other salutary changes were also introduced by the amending Act of 1923. Still another amending Act passed in 1926 provided for better administrative control calculated to safeguard the lives of the operatives.

The development of the labour movement in India necessitated legislative intervention for two purposes, namely, the formation and management of Trade Unions, and provision for the prevention and settlement of industrial disputes.

Trade Union Movement in India :—The right to strike was never questioned, but the members of a trade union could not be exonerated from the civil liability arising out of strikes. The workers could not, for instance, be protected from the breach of service contract under existing laws. The Act of 1925 provided for the growth of Trade Unions on right lines. The situation was further clarified by the passing of another Trade Union Act in 1926.

Various causes have contributed in retarding the growth of the Trade Union movement in India :

Tardy development of the Trade Union movement : its explanation.

- (a) hostile attitude of the employers to all combinations of their employees ;
- (b) illiteracy of the workmen ;
- (c) absence of a body of wage-earners divorced

from the ownership of land, capital and other means of production. In India almost every factory operative is an agriculturist first and agriculturist last and a factory operative in between.

- (d) The movement is led by middle class men, specially lawyers, who sometimes forget that it is after all an economic and not a political movement. In many cases, the labourers have been exploited to gain political ends.
- (e) The operatives do not also show as much loyalty to the Union as it deserves. Their sympathy is rather lukewarm.

Prevention and Settlement of industrial disputes : Government felt the necessity of creating machinery for the prevention and peaceful settlement of industrial disputes. The Trade Disputes Act was accordingly passed in 1929. This Act authorised government to set up a Court of Enquiry or a board of conciliation either at the initiative of government or on an application being made to it by the parties, jointly or separately. In public utility services 14 days' notice is to be given before a strike or lock-out is declared. A strike which aims at objects other than the furthering of a trade dispute is declared "illegal". The Royal Commission on Indian Labour has gone into the whole question of factory labour and urged the advisability of setting up permanent courts of Enquiry. It has

also recommended that the question of providing means for the impartial examination of disputes in public utility services should be duly considered.

Foreign Capital in India : Capital plays a prominent part in any scheme of agricultural and industrial improvement. And so long the indigenous capital is insufficient in supply or unavailable, a nation should have no prejudice to the employment of foreign capital. India suffers from a lack of capital. Shyness of capital for new undertakings is another obstacle. The political connection between India and England has enabled the former country to get loans from the English money market at a comparatively low rate of interest. It would therefore be a short-sighted policy to resist its employment. Foreign capitalists, in initiating industrial enterprises, have done much pioneer work. We have therefore to guard ourselves against the view that because the capital used is foreign it must therefore do harm to the country. And so long we do not pay too high a price for it, it is always welcome. The employment by the state of foreign capital for its railways is the right use of foreign capital. But there is another side of the picture. In most cases foreign capital has been imported with the foreign capitalist and so not only interest, but profits of management have left India. India thus has been deprived of the cream of the industry and what benefit the people of the country have derived has consisted in earning their livelihood as wage-

Its uses and abuses

earners. Writing in this strain "Sir V. D. Thackersey has observed : "But when we turn to the petroleum industry in Burma, the gold mines of Mysore, the coal mines of Bengal, the tea, jute industries, the carrying trade by sea, and financing of our vast foreign trade by foreign banks, we come upon another and less favourable aspect of the question of the investment of foreign capital". He thus concludes, "In such cases, I cannot but think that it would be to the permanent good of the country to allow petroleum to remain underground and gold to rest in the bowels of the earth, until the gradual regeneration of the country, which must come about under British rule, enables her own industrialists to raise them and get the profits of the industries".

The Fiscal Commission has pointed out the advantages of the use of foreign capital as follows :—

- Advantages of foreign capital.**
- (i) The foreign capitalist brings with his capital the technical knowledge and organisation—primary requisites for industrial development. We learn from him up-to-date methods and newest ideas.
 - (ii) Foreign capital helps in the enrichment of the country.
 - (iii) Various works of public utility, railway extensions, irrigation and hydro-electric works have been possible because of foreign capital.

The External Capital Committee (1925) have stated the following objections to the use of foreign capital :—

- Disadvantages of foreign capital**
- (i) A certain proportion of the profits will go out of the country.
 - (ii) Investors will choose the directors and high salaried officers from their own nationality.
 - (iii) The vested interest created by foreign capital will acquire a great political influence and might resist the granting of political reforms.
 - (iv) Foreign capital will monopolise the key industries or industries important from the point of view of national defence.
 - (v) Foreign capital may exploit the natural and irreplaceable resources of the country such as minerals.

In view of the hostile attitude towards the employment of foreign capital, the moderate opinion held is that foreign capital, indispensable as it seems at present, may be admitted under certain restrictions. The restrictions proposed are :—

- Proposed restrictions as regards importation of foreign capital into India.**
- (i) Foreign companies should be registered in India with a rupee capital so that Indians may invest and hold positions in management.
 - (ii) A certain proportion of the shares and seats in the body of directors should be set apart for the Indian investors.

- (iii) That companies thus formed should be under an obligation to offer facilities for the training of Indian apprentices.

Measures such as these must however be regarded as palliatives. The real solution of the difficulty has lain in finding the capital from within India for development of Indian resources.

CHAPTER VI

Distribution.

Conditions determining rent—The conception of pure, economic rent is that it is a differential yield or surplus accruing to a plot of land when it is simultaneously cultivated with another less productive or less favourably situated. The land that just repays the expenses of cultivation (i.e. pays for wages of labour, interest on the capital employed and for other necessities of the cultivator), but no more, is "land on the margin of cultivation" or simply "no rent land". Thus says Henry Clay, "Rent is due to natural variations in soils, or to the varying advantage given to sites, not by the owners of the sites, but by the distribution of population and the means of transport. If the payment of rent were stopped, the fertility of good soils and the convenience of good sites would not diminish: for the rent-receivers did not create and do not maintain that fertility and that convenience."

Conception of economic rent:

Actual rent as distinguished from economic rent.

The above conception of rent is a theoretical abstraction, but the actuarial rent is what the owner receives from the tenant and possibly every land yields a rent as no land, in its entirety, is on the margin. This actual rent is more or less than economic rent and depends

on the intensity of reciprocal demand between the landowner and the cultivator. Thus in areas where population is increasing, towns are growing and prices of crops are rising, the demand for land is keen and the actual rent is in excess of economic rent. Under reverse conditions, decay in towns and depopulation and a general stagnation, the rent may be even nominal, in extreme cases land may go a-begging. These remarks also apply to manufacturing lands, building sites or mines.

In the pre-British days, the custom was for the cultivator to deal directly with the state-representative and the whole of economic rent passed from the former to the latter. In some cases, of course, a middleman intervened and his remuneration was more a fee than a part of the profits of cultivation.

With the passing of India into the hands of the British crown, the former practice of realising practically the whole of the economic rent as land revenue was continued.

In some provinces the intermediaries were weak and government dealt direct with the cultivator and these provinces are known as Ryotwari provinces (Bombay, Madras, Burma and Assam). But in other provinces like Bengal the intermediaries were powerful and a direct transaction took place between them and

**Rent in
India.**

**Ryotwari
and
Zamindari
Provinces.**

government. The former realised rent from the ryots, retained a portion, generally 10 per cent for them, and handed over the rest to government. The assessment of land revenue at 90 per cent of the rent was made permanent in Bengal in 1793 by Lord Cornwallis. The government revenue at the present time, however, represents only 25 per cent of the economic rent, the zamindar's share being 75 per cent. In other provinces, the government demand is fixed for a period varying from 20 to 30 years, at the end of which it is liable to a revision. The assessment of land revenue has been limited to 50 per cent of the economic rent.

Permanent settlement in Bengal.

One peculiarity of the Indian land rent may be stated. In other countries the land revenue derived "is an assignment, from the rent made by the landowners to the government, in India the rent is, historically speaking, a relinquishment of part of the profits of land by the government to the landowners".

Peculiarity of the Indian land rent.

The incidence of the land revenue in the early days of British rule was however high (90 per cent of the economic rent). But with the increase of population and a gradual decay of indigenous industries, the competition of tenants for land became keener and keener and the landlord abandoned the customary rent and relied on competition. To

Factors determining rent—custom, competition and legislation.

safeguard the interests of the tenants against acts of highhandedness of the zamindars, the government have passed salutary tenancy laws in all provinces. A new factor thus was introduced in the fixing of rent, namely, legislation. The incidence of rent thus depends on the interaction of three factors—custom, competition and legislation. "In the early days of British rule custom was everywhere paramount". It still continues to be the foundation of rent. The influence of competition is neutralised, however, by legislation. Rent legislation "starts from a basis of custom and, while accepting the legitimate influence of competition, seeks to confine that influence within reasonable limits".

Cash rent and Kind rent—Rent laws deal with rent paid in cash. But the rent of the pre-British days was paid in kind i.e. in a portion or share of the grain heap. This practice even now prevails in some parts of India.

The kind rent bears a proportion to the produce and so in years of scarcity no hardship is felt which however is inevitable under a system of fixed cash rental. Many complicated questions dealt in by the Tenancy laws are thus avoided. Kind rent is an automatic way of apportioning the relative shares both in case of increase and decrease of production.

Merits of Kind rent.

The demerits of rent paid in kind are that the system

Its demerits. gives rise to smuggling, uncertainty and oppression. It lays the door open to underhand means. The system of cash payment, however, is steadily gaining ground in India.

Land Settlement in India.

There are two kinds of settlement (i.e. method by which the land revenue is determined),—
Settlement, Permanent and Temporary. Permanent and Temporary. Under the former, the amount of revenue has been fixed in perpetuity and is payable by the **Permanent** zamindar to the government. It was introduced by Lord Cornwallis in 1793. It now prevails in Bengal, parts of Oudh and certain districts of Madras.

Elsewhere, the settlement is **Temporary**. Revision of assessment takes place at intervals of 20 to 30 years. It is subdivided into Zamindari and Ryotwari systems. The difference between the two is that in the former system the landlord pays the revenue, in the latter the cultivator pays the revenue direct to the state. Ryotwari holdings, again, are of two kinds. Either each individual occupant holds land direct from government (as in Madras, Bombay, Burma and Assam), or the land being held by the village community, the head of the village is responsible for the payment of revenue on the whole village area. The principle that improvements effected by individual enterprise shall be exempt from assessment has been

accepted by government and the cultivators are in a position to use the land to the best advantage.

State intervention for protection of the cultivators and tenants from the rapacity of the land-owning classes,* has resulted in enactment of a large volume of tenancy legislations. Laws have been passed in every province to give security of tenure to the cultivators. Tenants are either "occupancy" or "non-occupancy tenants. For acquiring occupancy rights different provinces have different laws, but the principle underlying all laws has been the unbroken cultivation of land for 12 years. Laws have also been passed placing restrictions upon the enhancement of rent. Rent of occupancy tenants can only be increased either by agreement or by law suit.

Wages :—Labour is regarded either as unskilled or skilled, the agricultural labourer and domestic servants belonging to the former group, and artisans, masons, carpenters and the like belonging to the latter group. Generally speaking, the level of agricultural wages is lower than that of the urban worker.

But the agricultural labourer gets many things free for which a town labourer has to pay. He gets free a small house to live in. Moreover, he gets one or two meals a day and other amenities like a ration of tobacco. "Ordinarily a farm labourer is fed,* or gets a certain fixed ration of

Land Tenure—two classes of tenants;

occupancy and non-occupancy tenants.

Payment of wages in kind.

grain, in return for regular service. He receives perquisites in the shape of an occasional piece of cloth, an advance or a small gift to meet marriage expenses." The remuneration of agricultural labour in most cases is paid in kind, a certain share of the crop.

A distinction is made between 'real' and 'nominal' wages. Nominal wages consist of the quantity of money given to a labourer in exchange for the work. Real wages consist, in addition, of the various other amenities, privileges and advantages given in exchange for his work. A labourer's welfare therefore depends not so much upon the nominal, as upon the real wages.

In the case of the Indian agricultural labourer, therefore, free rations of meals, tobacco etc. constitute items of real wages. Regularity and constancy of employment are factors also in real wages. In this respect, the agricultural labourer is at a disadvantage as for a few months he is out of employment every year. Another item of real wages of the hired agricultural labourer is the supplementary income he derives from the little bit of land he may happen to possess and cultivate himself. The agricultural labourer is generally paid in kind. The methods followed in paying the labourers, however, differ in the various provinces. In the Punjab, for instance, either purely cash wages are paid, or cash wages supplemented by food, tobacco, lodging, clothing etc. or purely grain wages.

In India no such thing as a universal rate of agricultural wages prevails and it is so for obvious reasons.

Rate of wages—its progressive-ness.

The rate of wages in different provinces varies according to the extent of their industrial progress. Money wages of provinces predominantly agricultural are lower than the money wages of provinces like Bombay and Bengal which are highly industrialised. Bearing this in mind, it may be said, however, that there is a general indication that wages in all parts of India have considerably improved between 1918 and 1928. A comparison of the present conditions in India with the pre-war conditions shows that the condition of the Indian agricultural labourer has much improved.

Wages of industrial labour.

Wages of industrial labour are generally paid in cash. But the supply of labour is casual, even in organised industries, as during certain parts of the year the industrial labourer takes an active part in agricultural operations. This is most noticeable in the coal mining industry as illustrative of the ever-changing character of the labour supply. Hence in a highly prosperous agricultural year many of the coal miners do not resume work in the mines at all.

The wage-earner naturally possesses a certain amount of independence unknown to the proletariat in the Western countries. Hence in the event of an unemployment the distress is not as acute as in those countries.

Agricultural character of industrial labour.

Monthly wages, and not weekly or fortnightly, are generally paid. Provison is also made in some places for housing accommodation of the labouring population to induce it to settle with the family. In a few large cities, a system of bonus payment (in addition to wages) has been instituted. The amount paid depends of course upon the length of service given. "This usually means that a worker receives a gratuity of 5 to 10 per cent. of his total wages after some 10 years' service."

Wages are either *time* wages or *piece* wages. Normally speaking, men-labourers are paid according to time-work, women are paid by piece-work. The time-work system prevails in the spinning and the piece-work system in the weaving industries. Wages are also earned in some employments by "contract-work" (for instance, in the building industry, loading and unloading works). Still another method is the "gang piece-work system" which commonly prevails among the miners where a certain amount is paid for each tub of coal and the amount is distributed among the members of the gang on an already determined basis.

The distinction between 'real' and 'nominal' wages is striking in organised industries. "Free quarters, housing accommodation at less than the economic rent, cheap grain, free medical attendance, free transport and occasional payments, are frequently given in addition to wages."

Methods of payment.
Time wages,
piece wages,
contract
works and
gang-piece-
work system.

Real and nominal wages in the ranks of industrial labour.

The few years preceding the War witnessed a rise of wages of all kinds of labour. Although accurate statistics are not available, but reports from the various provinces show that there was a general rise in wages in the first decade of the century. This rise, however, was not uniform. As the Director of statistics observed, "it is interesting to note that the rise in the wages of industrial labour has not been so great as in the case of agricultural labourers and village artisans."

It must be realised that a rise in wages benefits labourers only when prices of necessities of life do not rise in the same proportion as wages. An unprecedented rise in wages took place during the war period. The need of war materials intensified the demand for labour, the supply of labour was considerably reduced by the influenza epidemic of 1918. The cost of living also rose much with the result that the then prevailing high rate of wages was found inadequate to support life. Higher wages were demanded; quite a crop of strikes took place and the demand of the labourers had to be conceded as strikes were successful generally. The wages reached a high level in 1921. The post-war decline in the cost of living necessitated a fresh adjustment and wages had to be lowered. Thus the Bombay mill-owners proposed a cut in wages in 1925 as the industry was suffering from a depression, a proposal vehemently resisted by the factory operatives,

It may be said generally that economic progress has taken place between 1900—1914 and labourers have considerably benefited. Since 1914 prosperity has fluctuated. Despite the world-depression, however, the condition of labourers has steadily improved. This need not be interpreted as representing a blissful condition of agricultural population. Improvements notwithstanding, millions of people are underfed. So long Indian labour remains unorganised and wages fail to get adjusted to industrial conditions, general level of prices and cost of living, it seems rather difficult to ameliorate the condition of the labouring population.

Interest. The price paid for the use of capital (i.e. excess of wealth produced over what is consumed) is called interest. Capital originates in saving and saving implies an abstinence i.e. an abstention from present consumption. Savers render a useful service to society as capital is indispensable for purpose of production of wealth. When the saver transfers his savings to the borrower, the latter is put in possession of wealth which is to be returned at a future date. Present goods are more tempting than future goods and hence

Element of risk in interest. the borrower has to pay back an additional amount of money, called interest. Another reason why interest is paid is that there is an element of risk in advancing the money. Hence, other things being equal, the greater the risk involved, the greater the rate of interest. The rate of interest

depends (after making allowance for risk) upon the interaction of the forces of the supply of and demand for capital.

The Indian money market is proverbially tight and the insufficiency and shyness of capital account for a chronic high rate of interest. It may be lowered if conditions become favourable i.e. if production of wealth increases so that more savings are effected, if illiteracy is combated so that the investing habit is preferred to the hoarding habit and if the country is provided with adequate banking facilities.

The rate of interest varies of course with the nature of the loan. Traders of good standing get loans at moderate rates. But the rates charged for loans to agriculturists and small industrialists and necessitous people are generally extraordinarily high. It is sometimes as high as 300 per cent. The village money lender still lies safely entrenched behind his bags of silver bullets and his exorbitant rates of interest remain unaffected. Co-operative banks have, however, brought down the rural rate of interest to a certain extent.

"The bank rate is the rate at which the Imperial Bank will ordinarily advance money against government security, while the Imperial Bank Bazar rate and the Hundi rate is the rate at which the Imperial Bank will discount or rediscount first class

three months' bills. The bazar rates are those at which the bills of small traders are discounted by shroffs". The bank rate varies with the cash balances, rising as the balances fall, and falling as the cash balances rise.

During the busy season (from November to June) the cash balances are depleted and the bank rate steadily rises. But during the slack season (from July to October) the money comes back to the commercial centres. Thus it starts with 5 percent in July and attains to a height of 7 per cent in the busy season. A fluctuating rate of interest, however, is prejudicial to a country's industrial expansion. A steadiness in the rate of interest will therefore go a long way in the stimulation of our manufacturing and agricultural industries.

Fluctuations in the Bank rate.

Profits—The entrepreneur or the organiser's share in distribution is called profits. Profits are the excess of the selling price of a good over its cost of production. They are due to the trouble and risk of management and the elements of success are shrewdness in facing risks and skill and ability in organisation. But in a dynamic society when inventions are taking place, the more ingenious organisers secure a differential yield as they show superior organising abilities. This kind of profit is analogous to rent, depending, as it does, upon special advantages, and

disappears when these advantages vanish. Inborn talents, however, play a more important part than executive ability in enabling different organisers to earn different scale of profits.

In India two classes of persons engaged in production of wealth are the agriculturists and the industrialists and so profits earned are either agricultural profits or profits of organised industries. The nature of agricultural profits may be noted.

**Profits,
agricultural
and industrial.**

There is an alternation of profits and losses in agriculture and in years of good harvest profits occur but in years of scarce production or failure of harvest losses are incurred. Agriculture is a precarious occupation and there is a cycle of good and bad harvests. But those parts of India where irrigational works exist, improved and intensive methods of cultivation have been adopted, facilities of credit have been provided for and consolidation of holdings effected, the element of chance or risk is greatly eliminated. Profits in dry farming, however, continue to be most uncertain and negligible.

**Alternation
of profits,
and losses
in agriculture.**

On the whole, the agriculturists' position has been considerably improved by an extension of railways in India and the opening up of the ocean routes. The commercial crops yield satisfactory profits. But all the profits that emerge may not be appropriated by the growers them-

**Emergence
of middle-
men.**

selves. There is a host of middlemen between them and the final consumers of agricultural produce and it is they who stand to gain most. What is true of the cultivators is also more or less true of the cottage workers, artisans and craftsmen. Difficulties of marketing, organisation and a general absence of literacy have brought into existence a series of middlemen who eat away most of the profits.

The profits of organised large-scale industries are high enough. Thus the profits earned in the textile industries (jute and cotton-mill industries),
Industrial profits. plantation industries, mining and engineering industries, also profits on banking and finan-

cing of the vast export and import trade of India and profits of shipping industries are considerable. During the period of the war, the cotton-mill industry experienced unparalleled prosperity and the mills worked at a high pressure and earned exceptionally high profits. This continued upto the year 1920 when a boom had set in ; but the world-depression which began in 1922 affected the industry most seriously. Other industries such as steel, paper, cement also were affected and they ceased to pay dividends. According to Mr. Wadia's showing, the cotton-mill industry paid 10½ per cent dividend between 1905 and 1914 and 53 per cent dividend between 1915 and 1922. Since then the industry has fallen on evil days and has been saved from sure ruin by special tariff legislation passed in 1930.

High profits of organised industries.

The jute industry is extremely well-organised and is dominated by European management. Highest profits were earned in 1918, 1919 and 1920. Having regard to the facts that India enjoys a monopolistic position in raw jute, that no other cheaper substitute is available and that the industry employs up-to-date machinery, inspite of temporary set-back the future of the industry is well assured.

A striking feature of the large-scale industries is that their origin is foreign. The pioneers of the jute industry were two Englishmen and to-day it is a practical monopoly of Scotchmen. Indian capitalists come forward with their investment, but they take little part in organisation and management. The same thing is true of the mining industry which is also dominated by European management. "The engineering industry, likewise, is almost entirely in European hands ; while the plantation industries owe their successful initiation and working to foreigners' pioneering efforts". The single exception is the case of Bombay and the staple industry is of Indian origin. The only contribution, therefore, of the people of India has been physical labour, but the direction and control of industries and the filling up of the higher posts have always remained with the Europeans without a break. Hence the oft-repeated complaint that the profits of industries are carried by the foreigners may be a statement of fact, but they

Concluding remarks.

Foreign management of organised industries.

cannot be held responsible for this. If a change in this direction is to be accomplished and the profits are to be retained within the country, there will be need for "brains, adaptibility and hard work of those who direct industry." "The supreme need of the country is for managers and foremen, for pioneers and entrepreneurs."

CHAPTER 7.

Exchange

Roads : In every country the system of communication is a prime requisite to prosperity.

Difficulties of road communication in India. But the question of transportation bristles with difficulties in India. Enormous distances have to be travelled, natural obstacles in passing from one province to another are formidable and even within a limited area the internal communications are hopelessly meagre in the rainy season. The difficulties of communication are age-worn and have exercised a great influence in moulding our political and industrial life.

Utility of a good road system in an agricultural country like India Although by the end of the 19th century the means of transport and communication have been revolutionised, by the maintenance of postal and telegraph services, railways, motor transport, shipping facilities and of metalled and unmetalled roads, a complete solution of the problem is nonattainable. Having regard to the facts, however, that India is a vast country and inaccessibility of agricultural districts in the rainy season is a great loss, the improvement of inland transport is of paramount importance. The remedy lies in developing a system of trunk roads.

The total mileage of metalled and unmetalled roads maintained by public authority is upwards of 230,000 miles. A hopeful sign is the development of motor transport connecting towns with suburban areas. Private enterprise has, in many cases, connected outlying hamlets with market places. But India is in a backward condition as regards first class roads which alone can stimulate the development of motor traffic. The economic importance of a good road system is immense. The internal trade alone is valued at more than Rs 1000 crores and roads connected with permanent bridges can further stimulate agricultural production and cottage industries. Industries may be decentralised and thus lessen housing and labour supply difficulties of the congested industrial areas. The unexploited forest resources of India can be better utilised with an efficient road system.

Incidentally, the relative merits and demerits of roads and railways may be discussed.

Roads may be constructed at a lower cost than railways, though the weather conditions render the maintenance of first class roads rather expensive. Moreover, light traffic for short distances can be best developed by roads. But for heavy loads and long journeys railways are most suitable. And roads and railways, generally speaking, are not competitive, as the former serve as feeders to the latter. What is needed, there-

**Road and
Railways—
their rela-
tive merits.**

fore, is a co-ordination in road development in the various Indian provinces and pursuant to this a committee of the Indian legislature (appointed in 1928) recommended the initiation of a Central Road Fund and holding of periodical all-India Road Conference. It also recommended that the Railway Department should contribute to the development of roads.

Railways. Of all the means of communication, the railway is the most important. In spite of the tremendous progress made and increase of mileage (In 1924 38,000 miles were under railways), many areas still exist without railway communication. Thus India compares unfavourably with England having 50,000 miles and U. S. A. with a quarter million miles of railways.

Lord Dalhousie, in his minute of 1853, dwelt upon the social, political and commercial importance of railways between the chief cities of India and the Court of Directors was convinced of their utility. The difficulties of transport during the Mutiny left no doubt as to the necessity of speedy construction of railways.

The construction of railways may be summarised under the following divisions:—

- (a) Owing to the lack of Indian capital and enterprise, English Companies, with state guarantee of interest on their Capital, were formed. The guaranteed interest was 5 per cent on Capital outlay (interest being paid in gold at 22d. to the rupee), coupled with the free gift of

History of construction of Railways in India.

Adoption of the Guarantee System—First Period

land, a sharing of the surplus profits with the government and the selling of the railways to the government after 25 years at a rate specified and the exercising of effective control by government over the Company's expenditure and working.

The results were disappointing. In spite of efficiency of administration, facilities of troops—mobilisation and development of trade, the railways were working at a loss and by the year 1869 the deficit on the railway budget was 166½ lacs. As there was no inducement to economy and it was believed that the railway could be more economically worked by direct state agency and funds borrowed at a lower rate than the guaranteed rate of interest, the Second period of Railway construction was ushered in.

(b) This period dates between 1870 and 1880. The Secretary of State raised money for the construction of railways on the security of Indian revenues. But the frontier wars necessitated construction of railways for strategic reasons. The Government was embarrassed by the famine of 1879 and the fall in the exchange value of the rupee resulted in a formidable handicap to government whose gold obligations in respect of interest and other charges were rather disquieting.

(c) In the third period, government again returned

to the policy of inviting private companies to construct railways, but as the guarantee involved a gold liability which government wanted to avoid, a subsidy was offered instead. "Companies were offered a rebate on the gross earnings of the traffic interchanged with the main line, so that the dividend might rise to 4 per cent, but the rebate was limited to 10 per cent of the gross earnings."

**Introduction of
Rebate terms—
Third period.**

These terms proved unattractive and so they were revised in 1896, this time the terms being easier for the companies. The result was that a moderate boom in the construction of feeder railways set in.

**Revision of
rebate terms.**

Meanwhile, the government purchased some guaranteed railways on the expiry of 25-year contract. The railways became state-owned, but some were managed directly by state-agency, the management of others was handed over to the companies under certain conditions. Thus a complicated system was evolved. Some railways were state-owned and state-managed, others were state-owned but company-managed and others were company-owned and company-managed. In the meantime necessity was felt for a greater elasticity and better co-ordination of the Railway Programme. The Railway Board was accordingly created in 1905; but the realisation fell short of expectations.

During the war period the railways worked under high pressure and were strained beyond their capacity.

On the termination of the war, the railway policy was the subject of bitter criticism. The gravamen of the charge was that the company-management of state-railways was prejudicial to Indian interest, and there was an insistent demand for their nationalisation. The Acworth Committee (1920) were of opinion that the present system of management by the Boards of Directors in London should be discontinued in future, and recommended direct state-management of railways owned by the state. In 1923 in the Legislative Assembly the non-official members carried a resolution in favour of state-management.

It has been urged in favour of state-management that :—

- Arguments for state-management**
- (a) The development of indigenous industries and trade and Indianisation of the higher offices may be achieved under state-management.
 - (b) Profits from railways will fill the state coffers.
 - (c) The interests of poor third class passengers can be adequately safeguarded under state-control.
 - (d) The efficient state-management of railways in Prussia, Canada, Belgium and elsewhere is a positive proof that what has been attained in these countries is capable of being attained also in this country.

- (e) Most of the railways are state properties and the bulk of the capital of the company's railways has been raised on the guarantee of the Secretary of State.

These considerations led the majority of the Acworth Committee to recommend state management of railways and reject the alternative of management by Companies with an Indian domicile.

The arguments against state-management are :—

- State versus Company management of Railways.**
Arguments against state-management.
- (a) That the Company-management would be most economical, as the interests of shareholders have to be looked into.
- (b) That the state-management is exposed to the evils of bureaucratic management and that the unlimited resources the state can fall back upon produces a demoralising consequence.
- (c) The conviction that the state-management of railways and for the matter of that the management of industries by the state is detrimental to the interests of the industries.

Separation of the Railway from the general finances.

What of the recommendation of the Acworth Committee and what of that of the Retrenchment Committee that the railways should be so managed as to yield a return of $5\frac{1}{2}$ per cent interest on capital at charge, the

railway finances have been separated from the general finances. And the definite annual contribution from the Railways to the general revenues is regulated as follows: The yearly contribution is fixed at 1 per cent on the capital at charge. If the surplus, after this contribution is made, should exceed Rs. 3 crores, $\frac{2}{3}$ rd. of the excess over Rs. 3 crores were to be transferred to the Railway Reserve and the remaining $\frac{1}{3}$ rd. were to go to the General Revenues.

The opponents of the Railway system have argued that railways have destroyed our indigenous industries and reduced India to the position of 'drawer of water and hewer of wood.'

**Effects of
Railways—
Economic**

But railways have produced many beneficial results :—

- (i) The famine problem has been transformed, and prompt famine relief is now possible because of efficient railways. Also their construction and maintenance give employment to large numbers and agriculturists have an alternative employment in times of bad harvest.
- (ii) Rapid expansion of export and import trade has followed the initiation of railway communications. Prices have been equalised throughout India and Indian goods are competing in the world markets.
- (iii) Railways have stimulated plantation and

engineering industries, Jute and Cotton-mill and coal industries.

- (iv) The village isolation is broken down and mobility of labour encouraged. Large industrial centres like Calcutta and Bombay depend upon railways for supply of labour which cannot be locally obtained.

A railway travel and the consequent mixing of different castes in a compartment have produced a spirit of toleration and a weakening of caste prejudices.

Moral

The effect on pilgrimages is also considerable.

An efficient administration has been possible.

**Political
and
Financial.**

Military defence is well provided for. And railways are both a source of direct and indirect revenue to the state.

Waterways :—In the pre-railway days most of the inland trade of India was carried on by water-transport and it possesses certain fundamental advantages over the land system of transport. The initial cost is negligible, except in the case of navigable works constructed at a great cost ; the maintenance charge is also of little consideration.

No doubt the construction of docks, harbours etc., is expensive, but the elaborate machinery maintained by the railway system is far more costly. That is why bulky goods can be moved at lower rates by boats and ships than by railways. The advantages of

water transport are most conspicuous in oceanic transport, oceans serving as nature's highways for commerce.

As regards inland waterways, India suffers from one limitation. Except perhaps the Indus, the Ganges **Inland navigation** and the Brahmaputra which are navigable by steamers almost all the year round, others are unsuitable for navigation. Either the beds are rocky and the movement of water is torrential (the Nerbada and the Tapti), or the rivers get dried up in summer. The numerous tributaries of the largest rivers are also navigable during the monsoon months and open to small craft only throughout the year. The total mileage covered by the navigable waterways of Northern India is 26,000 miles. Peninsular India is generally unsuitable for navigation, the Mahanadi, the Godaveri and the Krishna being navigable only in upper reaches. Our inland navigation was during the Hindu and Mahomedan periods, in a flourishing condition, but the railways have affected it most adversely.

India is deficient in her natural harbours and these difficulties have been overcome by construction of **Marine Transport.** ports and harbours to facilitate coastal and overseas communications. The premier ports are Bombay, Karachi, Rangoon, Madras and Chittagong. "Before the advent of the iron or steel steamship, India had a considerable mercantile marine

and a flourishing ship building industry." The opening up of the Suez Canal in 1869 gave an impetus to steamship which brought about a revolution in ocean transport. And British shipping companies almost monopolised India's external carrying trade. The annual foreign and coasting trade of India is valued at Rs. 800 crores, but she has practically no mercantile marine of her own. It has been stated that 12 per cent of the coastal trade and 2 per cent of the oceanic trade are carried in indigenous bottoms. Articulate Indian opinion has universally upheld the cause of an Indian mercantile marine which can serve a double purpose, namely, as a means of transport and a means of naval defence in times of war.

A movement is set on foot for reserving Indian coastal trade to Indian shipping. With this object in view the Coastal Traffic Reservation Bill, known as Haji's Bill, was introduced into the Assembly in 1928. It raised a vehement opposition on the ground that it was an economically unsound proposition.

We may conclude this topic by summarising the relative merits of railways and irrigation canals as **Comparison between Navigable Canals and Railways.** means of communication. The cost of navigation transport is less than that of railways. But cross-communication and feeder routes are more difficult in canal routes. Canal transport requires a greater time and finally canal navigation may necessitate a diversion of

water which may be more profitably employed for irrigation.

Aviation :—Aviation bids fair to rank as an important method of transport. India is fitted by nature to have a developed air route. The meteorological conditions are generally favourable and the disturbances arising from the monsoon do not constitute a stumbling block. The meteorological department carries on continuous research work and it seeks to determine the upper air movements and furnish all informations calculated to safeguard air craft and minimise the cost of flying. Certain parts of Burma

and India, for geographical reasons, are not capable of being developed by Railway Communication and claims of aviation become irresistible. India is a large country and the chief centres of commerce are situated at long distances. There may be considerable saving of time if civil aviation is developed. Thus a night service between Calcutta and Rangoon would save three working days, a similar service between Calcutta and Bombay two working days.

Advantage of aviation notwithstanding, financial stringency has up to now retarded the progress. Surveys of air routes have been made and in some cases sea-plane service has been preferred to land routes (e. g. between Calcutta and Rangoon). And this branch of aerial activity is of special importance. Aviation

is at present in a rudimentary stage, but with improvement in the financial condition a more rapid progress is expected.

Civil aviation is under the control of the Director of Civil aviation and this department is included in the portfolio of the Member of the Governor-General's Executive Council in charge of Industries and Labour. An Indian State Air Weekly Service between Karachi and Delhi was opened in December 1929, as an adjunct of the air mail between Karachi and England. Promoters of this service wanted to extend it to Calcutta and Rangoon, but the plan was held in abeyance for financial stringency. A matter for congratulation is that steps are now being taken to complete the Indian section of the All British Air Service from England to Australia. Another notable feature is the running of the Karachi-Bombay-Madras air mail with a possible extension to Colombo.

Foreign Commerce :—The fact of India being predominantly an agricultural country dominates the course of her foreign trade. Agricultural products like wheat, seeds, cotton and jute figure most prominent in her export trade.

But the trend of India's foreign trade of the 19th Century lay in an opposite direction. The exports consisted of manufactures of fine workmanship like cotton and silk textiles.

A slow
change in
India's for-
eign trade.

The Industrial Revolution in England, the cheapening of ocean and sea transport and the connecting of India by a network of Railways brought about a sudden change in her foreign trade. She was reduced from a developed industrial country to one concentrating on the production of food grains, plantation products and raw materials. The export of wheat in large quantities was possible after the opening of the Suez Canal. The Crimean war gave an impetus to jute export, Dundee having had to rely on Indian jute instead of Russian flax and hemp. Manufactures were growing in England and the East India Company exploited the agricultural resources, such as Cotton, tobacco, indigo and jute which constituted the raw materials for British manufactures. It was easy enough for the British manufactures to make an inroad upon the Indian markets.

There has been an increase in the volume of our external trade. Thus the average annual value was Rs. 87½ crores in the period 1865—1869, but rose to Rs 437 crores in 1913-1914 and Rs 653½ crores in 1924-1925. As noted above, since the Industrial Revolution our exports consist of bulky agricultural and mineral products instead of finished articles. The imports, on the other hand, are mostly manufactured goods. There is an annual excess of exports over imports and this balance of excess is paid for in treasures. And there is a tendency of importation of gold by way of

**Character-
istics of our
foreign
trade.**

liquidation of a part of this excess. But another part of the excess, instead of being paid in gold, is offset by way of payments India has to make for the Home Charges. Services of foreign banks, shipping and insurance companies, profits of European merchants and savings of European officers remitted to England. In view of the economic backwardness of India, the amount of foreign trade 'per capita' is rather small, compared to the position of more advanced countries. Another feature is that although the foreign trade has increased enormously, there has been no corresponding increase in our internal, coastal and trans-frontier trade. Another trend is the diffusion of the export trade over the different parts of the world. In 1855 England absorbed 75 per cent of our exports. At the time of the outbreak of the war our export trade was diverted to the continent of Europe, U. S. A., and Japan. England's share in our import trade correspondingly declined, Germany and Japan coming into prominence. With these general observations, we may proceed to examine the imports and exports rather closely.

Imports :—The total value of imports of merchandise in 1931-1932 was Rs 126 crores, the corresponding figure for the previous year being Rs 164 crores. The decline was most felt in textiles, cotton piece goods, grey and white, raw and manufactured silk, wool and woollens. But artificial silk recorded an increase in import. The metal group also recorded a decline. Thus imports of iron and steel declined.

Motor vehicles, rubber manufactures, sugar, mineral oils all suffered from a decline.

The effects of the imports on the economic life of the country are worth stating. Some of the imports are consumers' goods, namely, cotton piece goods, silk and woollen goods, building materials, hardware, cutlery, motor cars, bicycles, sugar, kerosine oil, provisions, salt, medicines, glass, precious stones, matches and the like. Their consumption has undoubtedly helped in raising our standard of life and as consumers of cheap goods we have certainly gained.

But these cheap machine-made goods have been responsible for the decline of the indigenous industries. Those who have suffered most by the impact are the handloom weavers, oil-pressers, leather workers and other artisans engaged previously in diverse cottage industries. In the transition stage, the village artisans have been thrown out of employment and have taken to agriculture mostly as landless cultivators.

India imports also goods of a different type, namely producers' goods such as cotton yarn, raw wool and silk, tools and agricultural implements, motor vehicles, chemicals etc. These importations have affected different people differently. Some have of-course stood to gain. Thus metal workers, blacksmiths

and weavers who still carry on have reaped the advantage of using better and cheaper materials in plying their craft. Another class of artisans,—the carpenters, masons, wood cutters, colliery labourers—have gained

as they are provided with more efficient tools. The scope of employment has been extended in railways, mining, cotton and jute textiles, printing presses etc. Importation

of stores purchased by the government has brought railways, irrigation, telegraphs and bridges into existence. These have been powerful instruments in the modern civilisation.

Those who have been adversely affected are the manual labourers who have been dislodged from the oil-pressing, rice and flour milling and sugar industries which are now conducted with up-to-date machinery.

One happy change in our import trade has, however, just begun. It is a slowly diminishing percentage of manufactured goods to the total import trade. The Indian cotton mill industry and iron and steel industry have made rapid strides and importation has accordingly fallen.

Exports :—

The total value of exports in the year 1931-32 amounted to Rs. 161 crores, there being a decline of

Analysis of Exports. Rs. 65 crores worth of goods as compared to the previous year. There was a fall in the export of raw cotton which suffered from a slump. This was due to the world's depression in the cotton

industry, a relative decline in cotton manufactures also took place. The jute trade also showed a decline owing to the adverse conditions persisting in the world's jute trade. Exports in wheat also dropped and although rice increased in quantity, there was a fall in value owing to the low level of prices of food stuffs in the world's market. The tea trade also had to face a setback, oil seeds had a 5 per cent decline in quantity and 18 per cent decline in value. Shipments of hides and skins and lac also declined. Similarly there was a decline in the value of re-exports.

The exports primarily consist of food grains and raw materials and to a small extent of manufactured goods. The chief exportable goods are cotton and cotton manufactures, jute and jute manufactures, tea, seeds, hides and skins, grain, pulse and flour, metals and metal ores, lac, oilcakes, coffee, tobacco, wood, timber etc.

The agriculturists secure better prices in the world's markets. Crop-growing has been localised and the cultivators have been devoting more and more acreage to "commercial crops" like cotton and jute. Thus is noticeable a tendency for the substitution of non-food for food crops (rice and wheat). The consequence has been that agricultural wages have, on the whole, advanced. The export trade has brought into existence

Effects of the export trade.

Rise of agricultural wages and emergence of subsidiary industries.

some minor industries as preparatory to their final exportation. Thus cotton ginning and pressing factories, raw jute pressing factories, rice polishing mills, seed-crushing mills, tea factories, crude leather-tanning industries have come into being.

One noticeable feature in the export trade is the increase in the export of manufactured goods. This also is a hopeful sign that the process of industrialisation has been set on foot and that is why India ranks at the International Labour Office at Geneva as an Industrial country.

Balance of Trade—The normal feature of India's external trade is that there is an excess of exports of merchandise over imports. Occasionally, India has to experience an adverse trade balance i. e. an excess of imports over exports as was the case in the years 1920 and 1921. But this is a rare phenomenon the normal trade balance being favourable to India. A part of this excess is paid for by import of treasure, but a far greater part of it brings no treasure, it being offset by the "invisible imports." The latter consist of the following items :—

A normal favourable trade balance.

How the excess of export over import is paid for.

- (a) Payments due from India in respect of profits on banking, insurance and shipping.
- (b) Expenses of Indian students studying abroad.
- (c) Movements of short-term capital due to the

disparity in money-rates in India and other countries.

- (d) Payment of interest and dividends on foreign capital investment in India.

Trade With Principal Countries :—During the pre-war period, both export and import trade tended to be diverted from the United Kingdom to other countries. The U. S. A. and Japan became important factors, central Europe also came into prominence. On the import side, the United Kingdom supplied nearly 70 per cent and the other countries participating in our import trade being Germany and U. S. A. and others. In 1913-14 United Kingdom's share was reduced to 64 per cent, the quotas of Germany, Japan and U. S. A. having correspondingly increased. On the export side, in the early part of this century, nearly 30 per cent of our exports went to the United Kingdom, 24 per cent to the Far East, 7 per cent to U. S. A. and the rest to other countries. In 1914 exports to the United Kingdom fell to 24 per cent, to Far East to 17 per cent. Exports to continental Europe rose to 29 per cent, to U. S. A. to 9 per cent and exports to other countries rose from 15 per cent to 21 per cent. Since 1914, the chief features of our foreign trade are :— The shares of Japan and the U. S. A., have increased, while those of the United Kingdom, China and France have declined. The best markets for our exports are the United Kingdom, U. S. A., Germany, Japan and France. And United Kingdom

(inspite of her relative decline), the U. S. A., Japan, Germany, France, Italy have a predominant share in our import trade.

It may be interesting, in this connection, to note the very recent changes in the distribution of our foreign trade. As between the two years 1931 and 1932 ;— in the import trade, United Kingdom's share fell from 37 per cent to 35.5 per cent, the share of Java severely fell from 6.27 per cent to 3.84 per cent, Belgium also had a decline. Japan had a marked increase from 8.8 per cent to 10.58 per cent. The U. S. A. and the British Empire, other than the United Kingdom, had also an increased slice of our import trade.

On the export side, United Kingdom and Germany have shown an improvement, United Kingdom taking 27.89 per cent of our exports as against 23.48 per cent in 1931. The Empire countries, other than United Kingdom, have also placed more orders with India. Germany's share shows a small increase from 6.47 per cent to 6.53 per cent.

Shipping :—Ship-building and shipping industries constitute important industrial activities of maritime countries. But these are conspicuous by their absence in India. Their importance, however, is easily conceived. Not only are thousands of men employed ; the economic value of a secure and cheap indigenous means of maritime conveyance is

undoubtedly high. England owes her prosperity to the maritime greatness. The need for an Indian mercantile marine was particularly realised during the war which clearly brought home to thinking minds the risks attaching to our dependence on foreign companies. And the maritime history of India up to the 18th century is an eloquent testimony of her considerable mercantile marine and a highly flourishing ship-building industry. The ushering of the Industrial Revolution and the opening of the Suez canal meant a triumph of steam navigation and steamship has thrust sailing vessels into insignificance. "Thus has passed away one of the great national industries of India after a long and brilliant history, covering, as we have seen, a period of more than twenty centuries. India is now without the most important organ of national life. There can hardly be conceived a more serious obstacle in the path of her industrial development than this almost complete extinction of her shipping and ship-building".

Our foreign trade is conducted now mostly in British ships. Wooden sailing vessels, classed as native craft, though numerous, contributed in 1914 to less than one per cent of the tonnage. These were engaged in trade with East Africa, Persia and Southern Asia. An analysis of the tonnage of vessels engaged in foreign trade reveals the slow but sure

Economic value of shipping and ship-building industries.

Disappearance of Indian ship-building industry.

Inadequacy of Indian shipping.

disappearance of Indian marine. Thus British shipping accounts for 70 per cent of the foreign trade and 75 per cent of coastal trade, the British Indian contribution being respectively 1.5 per cent and 15 per cent. India has to pay as freight charges at least Rs 50 crores every year. Her dependence on other countries, for foreign and specially coasting trade, is very regrettable. The traditions of a not very ancient sea-faring people seem to have gone into oblivion. An extensive sea board, foreign and coastal trade of great bulk, and a teeming population with glorious traditions offer legitimate grounds for a revival of maritime activities.

Of late a movement for the revival of Indian shipping and ship-building has been initiated. But the resources needed for developing a modern ship-building industry,—availability of iron and steel machinery works—are wanting. As regards shipping, a few navigation companies that have been started afford no encouraging results. It is doubtful whether they can survive at all, in face of adverse foreign competition and deliberate rate-cutting, without adequate state aid.

Perponderance of foreign shipping.

Free Trade and Protection.

The economic policy of the Indian Government during the latter half of the 19th century was based upon the "laissez-faire" or free-trade principle and

until 1916 Indian tariff policy was regulated on that principle when, for increasing the revenue, drastic steps had to be taken and customs duties were successively increased. Thus a change of policy appeared and the effect of the changes in the tariff system has been more or less protective in character.

We may briefly state the arguments on which free

Free trade, traders base their doctrine :—
its creed.

- (i) The capital and labour of every country are naturally limited and it is of the utmost importance that they would be most effectively utilised. Hence the government should not interfere in the employment of the productive energies of a nation. Rather the economic laws of supply and demand would determine the direction of employment of labour and capital into industries in which the nation has a comparative advantage. This leads to national specialisation.

Fulllest utilisation of a country's supply of labour and capital.

- (ii) The good or goods thus produced would be exchanged for others similarly produced in other countries of the world. The result will be that each good will be produced and obtained in exchange at the least cost. The ends of production and consumption would be met at the least sacrifice.

Production and exchange of goods most effectively conducted.

Each nation thus would be a nation of experts and it is urged that it is better for a nation to be a master of one industry than a jack of many industries. The advantages, in brief, will be those of international division of labour and any attempt to divert labour and capital to other channels by manipulation of tariff rates would produce disastrous consequences.

Sound as these contentions are, there are some convincing limitations. Free trade doctrine is cosmopolitan, it tends to promote international co-operation and throws the interests of individual nations to the background. Foreign competition may prevent a nation, for instance, from applying its labour and capital in any industry in which it may have a theoretical, potential advantage. "The superiority of one country over another in a branch of production often arises only from having begun it sooner." Hence the natural advantages of a country may be offset if another country,

having the advantage of an earlier start, would prove a formidable rival and hinder its development. The result is that the progress in the former country may be very slow, even, indefinitely delayed. The German economist List has lucidly expressed this idea and Professor Pigou has summed up the position as follows :—

"The main element of productive power, whose development involves a long process, is a population

trained in the general atmosphere of industrial pursuits. If a country is entirely agricultural and has no important class of artisans or factory workers, the skill required for starting any particular kind of mill will be very difficult to get. 'Masters, foremen, and workmen must first be either trained up at home or procured from abroad, and the profitableness of the business has not been sufficiently tested to give capitalists confidence in its success'."

Moreover, the advantages of international division of labour are, in many cases, more apparent than real.

Extreme specialisation is not an absolute good. Specialisation in production may not always conduce to the best interests of a nation. The development may be one-sided, as of a purely agricultural country, and the adverse effect which it produces on the

national character must not be overlooked. Considerations of national self-sufficiency, particularly national defence, make one sceptical of the advantages of free trade. This argument is particularly relevant in India which produces raw materials and food stuffs in abundance and adoption of free trade would never enable her to realise industrial potentialities.

Grounds on which protectionists base their doctrine. Protection is a negation of the principle of free-exchange of commodities between nations. It is associated with the ideal of national self-sufficiency. The capacity of a nation to produce wealth is held to be more important than wealth itself,

The protectionists have advanced many arguments some of which are as follows :

- | | |
|---|---|
| Idea of a favourable balance of trade. | (i) The maintenance of a favourable balance of trade i. e. excess of exports over imports. Exports are good as they bring in money, and imports are bad as they have to be paid for in money. This is, however, a crude mercantilistic idea and is an exploded theory. Money can never be the be-all and end-all of life. |
| Home market argument. | (ii) Protection creates a home market. The imports are checked and goods formerly imported are made in the country and thus, it is argued, an additional market is created. But the fallacy in the argument is that the cutting off of imports entails a cutting off of exports too. The home market offers less in exchange than formerly obtained by foreign trade. |
| Employment of labour argument. | (iii) Protection creates employment for labour. The shutting out of imports means creation of more employment for men who make in the country things which were formerly imported. But the shrinkage of exports which a curtailment of imports engenders, will require less labour in the former, though more in the latter. |
| | (iv) Protection raises wages and keeps wages at |

**High wages
argument.**

a high level. Protection, it is urged, stimulates industrial expansion and over the whole range of industries protected, additional fields for employment of labour are created. Hence free trade between a country of high wages and another of low wages will be detrimental to the former country. But this apprehension is unfounded as the cause of high wages is high effectiveness of labour. This is why high wages and low prices co-exist in a country and such a country is not universally under-sold by countries based on a lower wages level.

**Infant
industry
argument.**

- (v) Protection is advocated on the ground that infant industries have to encounter initial difficulties and therefore cannot meet foreign competition. It is added that agricultural goods and raw materials offer no prospect for protection, but manufacturing industries lying in a state of infancy stand in need of protective tariffs. There are however many limitations on this argument.

**Natural self-
sufficiency
argument.**

- (vi) Political considerations have weighed much in favour of protection. In matters like shipping and defence which are considered more important than opulence protection is hailed with delight.

Diversification of industries argument.

- (vii) Protection has also been justified on the ground that it provides for a diversification of industries. Under free trade, so it is argued, there is a narrow range of industries. This produces a deficiency in the intelligence of the people. They lack adaptability and become conservative in habits. Diversified industries make for social and educational advancement and create an alertness of mind. Predominance of agriculture produces economic conservatism and hinders the development of social freedom. Industrial occupations, on the other hand, increase the openings for varied types of ability and character and conduce to a higher level of intelligence amongst the masses.

Discriminating Protection for India.—The question that presents itself is : should India follow the Free-trade or Protectionist policy for purpose of her economic salvation ? Mention has already been made of the fact that the general increase of customs duties for augmentation of revenue resulted in the departure from the free trading policy and the tariff system tended to become more and more protective. The adoption of the right fiscal policy for India was a matter of the utmost importance. The Indian Fiscal Commission was appointed to go into the question and it declared itself in favour of a policy of protection

India pledged to a policy of Discriminating Protection.

to be applied with discrimination in the selection of industries for protection.

Restrictions on freedom of trade involve immediate loss, the prices of goods under protection rise and the consumers suffer. But the ultimate gain will outweigh the burden which protective duties impose and the end therefore justifies the means. Protective duties are like "crutches to teach the new manufactures to walk" and "the cost of the crutches is more than repaid" when the industry is established.

There are special circumstances which justify India adopting a protectionist policy. As an agricultural country her natural resources are of undoubted advantages. The natural supply of raw materials is large and the potential supply of cheap labour and power resources is abundant. The jute and cotton-mill industries exist in a high pitch of efficiency. Hence the inference that, given favourable opportunities, India can turn her natural resources to manufacturing products, is not at all unwarranted.

Creation of a Tariff Board. The Fiscal Commission, however, was of opinion that protection granted indiscriminately to industries would do more harm than good. Hence it recommended the appointment of a Tariff Board which, before advising what rate of protection should be recommended, would satisfy itself that three essential conditions are fulfilled.

The conditions, as laid down by the Fiscal Commission are :—

- Three essential conditions for protection.**
- (i) "The industry must be one possessing natural advantages, such as abundant supply of raw materials, cheap power, a sufficient supply of labour, or a large home market," (in other words, if India possesses natural advantages for the industry).
 - (ii) "The industry must be one which without the help of protection either is not likely to develop so rapidly as is desirable in the interests of the country" (in other words, the industry must be one that is unlikely to develop without initial protection).
 - (iii) "The industry must be one which will eventually be able to face world competition without protection".

From the above conditions it is clear that industries presenting advantages of large scale production and meeting, in the long run, the entire home demand, would be the most fitting subjects of protection. Moreover, new industries would not be tried as they would involve a great hardship on the consumers. These had better be encouraged by state aid such as bounties. The dictum that was adopted is, "Nurse the baby, protect the child and free the adult."

The steel industry and a number of industries using steel as raw material were first investigated by the Tariff

Board. Both protective duties and bounties (later abolished) have been granted to the steel industry, the former expiring in 1934. Various other industries followed suit and appealed for protection. These include industries such as :—

- (a) Paper and paper pulp—the Tariff Board recommended a bounty on research for the industry, but government preferred protective duties on certain kind of paper.
- (b) Cement—the Board was unable to recommend protection, the industry suffering from over-production.
- (c) Cotton-mill, for which a minor measure of protection was conceded,
- (d) The Coal and mineral oil—disallowed by the Tariff Board.

Besides these there are several other industries which are under consideration by the Tariff Board.

Imperial Preference—This a movement calculated to bind the British Empire more closely and organically than at present. By way of consummation of the deal India was invited to join the scheme as she is a part of the British Commonwealth.

What it means. One advantage will be the development of the Impérial resources and the Empire will be self-supporting in respect of food supplies, raw materials and essential industries.

The Great War demonstrated both the germs of strength and weakness of the British Empire. Pursuit of a concerted action by the Empire and the marshalling of its economic resources were helped in a vigorous prosecution of the war.

**Lessons of
the Great
War.**

The instability of Indian industries, manufacturing and agricultural, proved a vulnerable point. A more fully developed India would make for the solidarity of the Empire and enable the United Kingdom no more to depend upon foreign supplies of raw materials and food stuffs, the danger of which was sufficiently grasped in an hour of common danger. An urgent problem thus was to organise the Empire on a more stable foundation and imperial preference was advocated as an effective means for realisation of the ideal.

The idea underlying the scheme may be thus stated : Within the Empire there shall exist no restrictions of trade (or at any rate, there shall prevail free trade). Preference would mean that goods imported from the favoured country pay a *lower* duty (or the duty on foreign importation may be higher than the other rate). In other words, preference means that goods from the favoured countries pay duty at a rate lower than the general import duty on foreign countries.

Sir Roper Lethbridge, a warm advocate of imperial preference, was of opinion that it was the next best alternative for India to protection (which, by the way

was unattainable in the early part of the nineteenth century, England being based on the orthodox free-trade).

Both protection and preference, being departures from free trade, impose loss upon the consumer (it also may mean loss of revenue). But under protection the consumer's interest is sacrificed for the benefit of the domestic industries, and under preference he is made to suffer for the benefit of the favoured foreign manufacturers. Preference also causes a loss of revenue. When import duties on foreign goods are higher than those on goods of the country preferred, the former are replaced by the latter. The higher price paid by the domestic consumers does not fill state coffers, but simply enrich the producers of the favoured country.

Comparison between preference and Protection.

In 1903 the Government of India, after considering the advisability of India entering into this scheme, came to the conclusion that "from an economic standpoint India has something, but not perhaps very much, to offer to the Empire, that she has very little to gain in return, and that she has a great deal to lose or to risk." This is evident from the following considerations :—

- (a) Nearly 60 per cent of our manufactured imports are obtained from the United King-

dom, so preference will be of advantage to her.

- (b) Nearly 70 per cent of our exports, which mostly consist of raw materials and food stuffs, are absorbed by countries other than the British Empire. The demand for them is keen and they get free admission to foreign markets. Discrimination by India against foreign countries may be followed by retaliation. Some have argued that India stands on a vantage ground and that she need not be afraid of retaliatory measures being adopted against her goods by foreign countries, as she produces goods indispensable for them. But a little consideration will show that except for Jute, India does not enjoy an enviable position and so her import trade may suffer. Neither is there any prospect of the loss in foreign exportation being compensated by the Empire buying more of India's exports. Not only a shrinkage in export trade is apprehended ; the confining of our export trade to the Empire countries may fetch less favourable prices to the Indian producers.
- (c) It is also apprehended that the Indian consumers will suffer. The effect of preferential duties on prices depends upon the

proportion which the particular imports from the favoured country bears to similar imports from other countries. In the words of the Fiscal Commission, "If the proportion of the market supplied by the favoured country is large, the burden on the consumer will be small, or possibly there will be no burden at all. So long, however, as the supply from the favoured country is small relative to the total supply, the consumer will suffer."

- (d) Another disquieting feature is that Imperial preference will diminish foreign competition, and the result will be that we shall receive less for our exports and pay more for our imports.
- (e) Now that India has won fiscal autonomy and launched upon a policy of "discriminating protection" which is bound to impose a burden on the domestic consumers, the preferential system might be prejudicial to India's industrial regeneration. The retention of higher duties against goods of non-preferred countries might operate to weaken the protection granted to our industries.
- (f) Adoption of the preferential tariff system is neither most advantageous to England herself. 60 per cent of her imports which

mostly consist of raw materials and food stuffs come from non-Empire countries and 50 per cent of her exports go to such countries. Adoption of a preferential duty will raise the price of raw materials and food stuffs in the British market. This will raise the cost of living in the United Kingdom. Prices of manufactured goods will also rise, because of enhancement of the price of raw materials and thus imperil her industries in foreign countries.

- (g) Finally, it has been said that the offer for preference should be a free and spontaneous gift, not a bargain. The anti-Indian legislation in the statute books of the British Colonies has caused great distrust and bitterness in India.

It may however be concluded that political reason should not be allowed to preponderate over the economic. Enlightened public opinion demands

Conclusion. that India should follow a policy of reciprocity with the Colonies some of which have already conferred certain preferences on India. India should certainly do her mite in the cause of Imperial solidarity, and poor as she is "no burden will be too great for India if she is made to feel at home within the Empire." Neither should one look too narrowly at the balance of India's loss and gain. Our vision should

neither be blinded by merely looking at the matter from the Indian and thus ignoring the Imperial point of view.

One must remember that India now enjoys the protection of the ubiquitous British navy in return for a nominal contribution. As the Fiscal Commission has rightly observed, "we do not forget that the United Kingdom is the heart of the Empire, that on its strength depends the strength and cohesion of the Empire and that its strength is bound up with the prosperity of its export trade.....".

CHAPTER 8.

EXCHANGE (CONTD.)

No right understanding of the present currency system is possible unless certain relevant facts in its earlier history are stated. And this history and the distinctive landmarks of the different periods may be outlined :

Currency—Metallic :—At the beginning of the 19th century no uniform standard Coin existed in British India. In Northern India, silver was the standard of value, gold coins being concurrently used. In Southern India a gold standard and a gold currency prevailed. Throughout India two standard coins of both gold and silver existed, but they were dissimilar in size and weight and denominations. The East India Company is reported to have found 994 coins of bewildering variety in use in India. A demand for a uniform coin was thus legitimate. The Court of Directors of the Company preferred a silver monometallism and declared that "silver should be the universal money of account" in India. But gold was not intended to be removed from circulation. Action was taken in 1818 when a silver rupee was substituted for the gold pagoda as the standard Coin of the Madras

First period
—Currency
from early
19th
century
down to
1835, Two
standard
Coins.

Presidency where gold coins remained in circulation for hundreds of years. The final step was taken in 1835 when the present silver Coin was formally established. It became the sole legal tender with free Coinage (in other words, the face value of the silver Coin and its intrinsic value coincided), and gold Coin was not to be a legal tender of payment. Although gold ceased to be legal tender as between individuals, the provision regarding the coining of the gold mohar showed that the E. I. Company did not entirely discourage the use of gold mohars (called "15 rupee pieces") by the people.

**Second Period—
from 1835
to 1874
Demonetisation of
gold.**

By a proclamation of 1841 public treasuries were authorised to receive gold mohars at the rate of Rs. 15 for 1 mohar in payment of public dues. This resulted in an extensive use of gold mohars. But the gold Currency had to be demonetised in 1853 when the proclamation of 1841 was found to be embarrassing to the government for circumstances over which they had no control. Extensive discoveries of gold in Australia in 1848 and 1849 caused the value of gold to fall relatively to silver. Gold became over-valued (according to the 1841 notification ratio of 15 : 1) and people began to pay their dues in the depreciated gold coin. By the notification of 1853 gold was demonetised and no gold coins were to be used on account of payments due to the government,

In 1864 the Chambers of Commerce of Bengal, Bombay and Madras memorialised the Government of India for a gold currency and in November a notification was issued by which Sovereign and half-Sovereign

Mansfield Commission. were receivable at government treasuries at Rs. 10 and Rs. 5 respectively. The agitation for declaring sovereigns legal tender was continued and in consequence in 1866 the Mansfield Commission was appointed. It recommended the Coining of Rs. 15, Rs. 10 and Rs. 5 gold coins and also that the Currency should consist of gold, silver and paper. The only action taken was the raising of the rate of sovereigns and half-sovereigns to Rs. 10½ and Rs. 5½ respectively. The other notable features during the period under review were demonetisation of silver and adoption of a gold standard by Germany in 1871, to be followed by the countries of the Latin Union (France, Belgium, Italy and Switzerland) who suspended in 1874 the free coinage of silver. The effect was that the gold value of silver began to fall steadily. In 1872 another attempt was made to introduce a gold Currency in India and declare it legal tender. But in 1874 the Government of India decided against the recognition of gold as a legal standard of value.

The fall in the price of silver was rapid ; on the other hand, gold was steadily appreciating in value owing to its increasing demand for currency, and a

decline in its production. The relative value of gold and silver was seriously disturbed. Silver came into the Indian mints in hordes and emerged as rupees. The rupee currency was overplus and a rise in prices ensued. The government of India was faced with financial difficulties in meeting their gold obligations in London (called the Home Charges). The fall in exchange also upset trade and discouraged the much needed import of foreign capital into India. An attempt was made to seek relief in an international agreement which might cause a rise in the gold value of silver by stimulation of its demand. The international conference convened for this purpose at Brussels in 1892 could accomplish nothing. The Government of India clung to the hope of adoption of Bimetallism by the commercially strong nations of the world. But they thought it undesirable to abandon a gold standard and a gold currency in favour of bimetallism. In the meantime, in 1892 the Government of India emphasised in a despatch, that should the Brussels conference fail, the Indian mints should be closed to the free coinage of silver and that arrangements made for the introduction of a gold standard.

The whole question was examined by the Herschell Committee which decided in 1893 to close the mints to the unrestricted coinage of silver, the govern-

ment reserving to itself the right of coinage. At the same time it was declared that gold coin and bullion would be received at the mints at 1s. 4d. to the rupee. The object aimed at, by the closure of the mints, was to give the rupee an artificially high value by making its supply scarce in relation to its demand. A gradual recovery of trade revived the demand for the rupee and its exchange value began to rise, and by 1898 it reached the 1s 4d. rate. Although gold was receivable at the mints, it was not made a legal tender, the rupee coin was the only legal coin and no legal relation therefore existed between rupees and gold. Thus the rupee was severed from its silver content, but it was not anchored to gold and the Currency system from 1893 was assuredly provisional.

Fourth Period, 1893-1900. Herschell Committee and closing of mints to free coinage of Silver.

The period of transition had to be terminated. The Fowler Committee was appointed in 1898 to recommend for the establishment of a satisfactory currency system.

Report of the Fowler committee recommending a gold currency for India.

The Fowler Committee, in rejecting the proposal to reopen the mints to the free coinage of silver, recommended that the Indian mints should be thrown open to the unrestricted coinage of gold. The goal was stated to be the adoption of gold both as a standard of value and as a currency. The exchange value

of the rupee was to be fixed at 1s. 4d. The sovereign was to be a legal tender and current coin. Moreover, the profits from the coining of rupees were not to be absorbed in the general revenues of the government, but to be set apart in a special reserve, called the Gold^{Standard} Reserve. The Reserve was to be available to secure the convertibility of rupees into sovereigns.

**Other
recommen-
dations.**

The official rate of exchange was fixed at 1s. 4d. Sovereigns and half-sovereigns were declared unlimited legal tender. The gold mint was not set up. The reserve, constituted out of the profits of the coining of rupees, called first the Gold Reserve and since 1906 the Gold Standard Reserve, was set up in 1900. It was located in London and the reserve was held in British securities instead of in liquid gold.

**Govern-
ment action
on the
Fowler
Committee's
Report**

An important landmark is now reached. The Fowler Committee visualised a gold standard with a gold Currency. But since 1899 government drifted into a monetary standard and called the Gold-Exchange-Standard. This is merely a gold standard without a gold currency. Under this system, gold does not circulate freely within the country, silver or any other cheap currency is the internal currency, but the latter is made convertible into the former for meeting foreign

**Fifth pe-
riod, 1900
to 1915.
Stabilisa-
tion of the
rupee at
1s.4d.
through the
mechanism
of the Gold
Exchange-
Standard.**

obligations, at a fixed maximum rate of the local currency. The gold reserves necessary to provide these remittances are kept abroad, as the object is to make gold available at a foreign centre to facilitate international payments. "The Gold-Exchange-Standard arises out of the discovery that, so long as gold is available for payments of international indebtedness at an approximately constant rate in terms of the national currency, it is a matter of comparative indifference whether it actually forms the national currency".

Consistent with this idea, the practice of importing gold into India in years of favourable balance of trade, to be shipped back to London at government expense after gold was handed over to government by the people in exchange for rupees, was considered unnecessary. And the practice followed by the Secretary of State of selling council bills (against gold deposited in London, the council bills being cashed in India at government treasuries) to enable India to meet the "Home Charges", was extended in 1904. The object was to prevent embarrassing accumulation of gold in India and in 1904 the Secretary of State declared his intention of selling Council bills on India without limit (i.e. over and above the requirements of the Home Charges) at 1s.4½d. which was the normal gold export point from London to India.

**Mechanism
underlying
the Gold-
Exchange-
Standard.**

**Sale of
Council
bills of
the Secre-
tary of
State.**

This system worked smoothly until 1907 when a crisis in Indian exchange took place. Owing to the failure of the Cotton crop the normal balance of Indian trade was reversed; there was a financial crisis in America which caused a monetary stringency all over the world. Council bills became unsaleable. The stoppage of sales of Council bills was not enough. There was an insistent demand for the export of gold from India. The gold of the Gold Standard Reserve might have been drawn upon, but the resources were not liquid (they consisted of securities). It was decided to sell in India sterling bills on London, but there was a drastic limit to such sales. Exchange fell to 1s.3½d. The prospect of the crop of the ensuing year was bright and the financial difficulties were tided over. The rupee was finally established, but the struggle imposed a heavy drain on the gold resources of India.

The appointment of the Chamberlain Commission (1913) and the publication of its report in 1914 marks a new phase in our currency history. The Commission decided that the Gold-Exchange-Standard should be strengthened and that gold currency was not necessary for India and that the paper currency system should be made more elastic.

The Currency system was subjected to the strain of the Great War. The outbreak of the War

caused a panic resulting in a general dislocation of trade and business. Exchange weakened and was met by the sale of reverse Council bills. This lasted till the end of 1916.

Sixth period—The War period. Dislocation of trade and business.

From 1917 to 1919 the rate of exchange rose abnormally. The balance of trade was highly unfavourable. War conditions interfered with the normal flow of precious metals into India. The burden of liquidating the favourable balance of trade devolved upon

Extraordinary Rise in the Rate of Exchange

the government. But a tremendous rise in the price of silver necessitated a raising of the exchange value of the rupee. This was in pursuance of the recommendation of the Babington-Smith Committee of 1919 which advised that the rupee should be fixed at 2s.

Report of the Babington-Smith Committee—the 2s. gold Ratio.

gold i.e. that the rupee should be linked to gold and not to sterling (paper). This recommendation was accepted in 1920. From 1920 the balance of trade became adverse and there was a heavy excess of imports over exports. Stabilisation of exchange at 2s. gold became impossible. And measures taken to bring up exchange at 2s. produced disastrous effects on Indian exchequer. Failing to do it, government tried to maintain exchange at 2s. sterling.

Seventh Period.—From 1920 Government abandoned the attempt to maintain exchange at 2s.

sterling. The adverse balance of trade persisted.

**Post-war
History
1920-1926**

The price of silver was falling. The combined influence of trade and fall in price of silver resulted in a fall in exchange until

in December 1921 it reached 1s. 3½d. sterling (or 1s. 1½d. gold). The rupee reached 1s. 4d. sterling in

**State of ex-
change.**

1923 and 1s. 4d. gold (or 1s. 6d. sterling) in October 1929. In April 1925 sterling reached gold parity and 1s. 6d. sterling became equivalent to 1s. 6d. gold.

Eighth Period.—The Royal Commission on Indian

**Final His-
tory—
Report of
the Hilton-
Young Co-
mmission.**

Finance and Currency was appointed in 1925 under the chairmanship of Hilton-Young. The main recommendations of this commission are :—

- (a) The superseding of the old sterling-exchange standard by a gold standard, but without the introduction of an actual gold currency.
- (b) The rating of the rupee at a new legal ratio of 1s. 6d. to the rupee.
- (c) The creation of a Central Bank to be designated as the Reserve Bank.

With this rather long history of the Indian currency system ranging over a period of nearly 150 years, it

**The Gold
Bullion
Standard.**

will repay discussing the essentials of the Gold Bullion Standard as postulated by the Hilton-Young Commission.

The ordinary medium of circulation in India should remain, as at present, namely, rupees and currency notes. Gold would not and need not circulate freely as money. It would, however, be the standard of value and the rupee would be linked to gold. To attain this an obligation would be imposed on the currency authority by law to buy and sell gold without limit at 1s. 6d. to the rupee, but in quantities of not less than 400 ounces of fine gold. The object for which gold is needed would not be enquired into. This obligation, it may be remarked, constitutes "the cardinal condition and compelling force" for maintaining the stability of the gold value of the rupee and stability of exchange.

Paper Currency.—It ought to be pointed out that the metallic currency is not the only form of currency. Government Currency note is another constituent element. The early history of paper currency may be stated in a small compass. Previous to 1861, the three Presidency Banks of Bombay, Bengal and Madras used to issue notes which had a restricted circulation. The passing of the Paper Currency Act of 1861 gave government a monopoly of note issue and the notes of the Presidency Banks were withdrawn.

Creation of the Paper Currency Department in 1861 for issue of government currency notes.

The principle underlying the issue of government notes was simple. It was modelled on the Peel's Bank

Charter Act of 1844 and the chief features remained unaltered till 1914. The Act of 1861 authorised issue of notes up to Rs. 4 crores against securities of the Government of India (called rupee securities). This limit (of uncovered or fiduciary issue) was, however, raised from time to time by special Acts. Thus in 1871 it was Rs. 6 crores, in 1890 raised to Rs. 8 crores and in 1897 to Rs. 10 crores and in 1925 to Rs. 12 crores. The composition of the securities underwent a change as well, as sterling securities up to Rs. 2 crores could be held in London. In 1911 the fiduciary reserve was Rs. 14 crores of which Rs. 10 crores were rupee and Rs. 4 crores sterling securities. But beyond the fiduciary limit, the whole of the rest had to be covered by metallic reserve.

Rules regarding issue of notes. Regarding the composition of the metallic reserve, before 1898 the whole of the Paper Currency Reserve (barring the securities portion) was kept in silver coin or silver bullion. In that year authority was obtained to hold any portion of the metallic reserve in gold coin. An Act of 1900 authorised that a part of the gold portion of the reserve would be held located in London. Finally, the Act of 1905 gave authority to the government to hold the metallic portion of the reserve, either in gold coin or bullion, or silver coin or bullion, provided that the silver portion was kept in India. By these

Raising of the fiduciary limit from time to time.

Diversion of a portion of the metallic reserve from silver to gold.

Location of the gold portion in London.

Acts, council bills began to be sold by the Secretary of State for gold in London against issue of notes to an equivalent amount in India. And a growing proportion of the reserve in London began to be kept in liquid form. This was the outcome of a deliberate policy, namely, the supporting of exchange, i. e. the securing of the convertibility of rupees into gold in case of adverse balance of trade.

During the war the government experienced difficulties to meet the growing demand for rupee currency. To cope with this increasing difficulty, between 1915 and 1919 the fiduciary portion was raised to Rs. 120 crores of which Rs. 100 crores could be

Further rise in fiduciary issue during the war.

held in British Treasury Bills. This was accomplished by a temporary amendment of the Paper Currency Act in 1919. By an Act of 1920 the metallic reserve was not to be less than 50 per cent of the Currency notes in circulation. In other words, the invested portion of the reserve was not to exceed the value of the metallic reserve. The Act had to be

Paper Currency Act of 1900 amended by acts of 1923 and 1925.

further amended in 1923 and in 1925 in view of the persisting contraction of the currency. Thus notes up to Rs. 5 crores could be issued against discounted bills of exchange. This extra issue was to take

the form of a loan to the Imperial Bank which should pay 8 per cent to government. The amended Act of 1925 changed the rule. Loans could now be made

to the Imperial Bank from currency so that the Imperial Bank could borrow Rs. 4 crores at 6 percent and Rs. 8 crores when the bank rate was 7 percent, instead of Rs. 4 crores at each rate from 6 to 8 percent.

Banking :—Capital plays a prominent part in all productive enterprises, in industrial ventures in particular. India's industrial development has not at all been commensurate with her natural resources. According to the Industrial Commission the shyness of capital for new undertakings and want of proper organisation for utilising such capital as is available have operated to retard the industrial development. Insufficiency of resources is also another contributory cause. The investing habit is in an embryonic stage and is yet to be popularised in our country. This is why the enrichment of the country has been so far dependent upon the employment of foreign capital. And the question that is agitating the public mind in India is whether the free flow of capital into India is to be checked by artificial barriers

The Banking System consists of two parts—the indigenous and the European system.

| | |
|--|---|
| The Indian Banking System—Indigenous and European—Indigenous banking. | Indigenous Banking —Three different classes of people took part in money-lending. They were : (a) the Indian shroffs who carry on financial operations in a large scale. Theirs merely is banking business of the type of modern Joint-stock bank, |
|--|---|

dealing, as they do, in deposit and discount. They are important factors in commercial cities and big towns and have business connections all over India, and some outside India also. (b) The money-lender who is also a trader. He finances agriculture, small industries and local trade. (c) Small usurers who deal with needy persons having little security to offer. The rate of interest is accordingly high and presses heavily upon the borrowers. The Pathan (Kabuliawalla) is now the chief type of the usurious money-lender.

Indigenous banking, specially of the second and third class, is done extensively in villages all over India where modern banking is unknown. There is no uniform rate of interest and it varies widely in different localities and according to the personal credit of the borrower.

The constituent elements are :—

- Banks based upon the European System.** (a) The Imperial Bank of India which was constituted out of the three Presidency Banks of Bengal, Bombay and Madras in 1921. Previous to their amalgamation, the Presidency Banks financed the internal trade and bought and sold inland bills of exchange and other negotiable securities. They, however, could not borrow outside India nor deal in sterling bills. They held government balances in the Presidency towns and also kept in deposit the unemployed cash of the Joint-

stock and Exchange banks. Thus they were, to a limited extent, the government's bank and the bankers' bank. The right of note issue was also conceded to them.

The difficulty of withdrawing government funds from the Presidency Banks having arisen, the "Independent Treasury" system was instituted in 1876. Government balances were kept in the three reserve treasuries. Large sums were kept locked and unused in the Government reserve and district treasuries at times when the Indian money market was very stringent. The periodical monetary stringency co-existing with the locking up of funds in reserve treasuries became an anachronism. The position has been radically altered since the creation of the Imperial Bank. Government balances are now kept with it at its head offices and branches. Government treasuries are maintained only at places where no branches exist.

**Functions
of the Im-
perial
Bank.**

The general superintendence is vested in a Central Board of Governors, the local affairs being controlled by local Boards at Madras, Bombay and Calcutta and such other places as may be determined. The Imperial Bank

conducts banking business on behalf of government. It holds the treasury balances wherever it has branches. It undertook to open 100 branches within 5 years,

government determining the location of one out of every four. At present the branches are 162 in number. A London office has been constituted and the management of the rupee debt in London has been entrusted with it. In India, the Bank manages the public debt in return for a remuneration. It may borrow money in India and in England (upon security of the assets of the Bank only). The chief restrictions placed on their business relate to the making of any loan for a longer period than six months. The proposal for the establishment of a Central Reserve Bank in India was the outcome of the recommendation of the Royal Commission of 1926.

- (b) Originally their function was confined exclusively to the financing of the export trade of India. But, in recent times, they have taken an active part in financing the internal trade as well. Formerly, the operations were conducted with money borrowed principally in London. Deposits for use in India were attracted by these banks at the foreign centres at rates higher than the home banks could pay. In recent years they have succeeded in attracting private deposits in India in large sums. They enjoy a practical monopoly of financing of India's export trade. The chief Exchange banks are the Chartered Bank of India and Australia, the Mercantile Bank of India, the National

**Exchange
Banks—
their
functions.**

Bank of India and the Hongkong and Shanghai Banking Corporation.

- (c) Previous to 1906 few Joint-stock banks existed in India. Their business was restricted to small areas. An era of rapid expansion began in that year with the establishment of the Bank of India and the Indian Specie Bank. The increase of joint-stock banking was rapid, but it was suspected that the business of many of these banks was of an unsafe and highly speculative character. As a result there was quite a crop of bank failures between 1913 and 1917. The signal was given by the failure of the People's Bank in 1913, to be followed by numerous other failures. A revival and expansion took place after 1918, and confidence was largely restored. But the failure of the Alliance Bank of Simla in 1923 gave another shock to public confidence. But the panic was averted when the Imperial Bank promptly dealt with the situation and undertook to pay the depositors' 50 per cent of the deposits. The Tata Industrial Bank, established in 1918, was merged in 1923 in the Central Bank of India.

**Local Joint-
Stock
Banks.**

The numerous bank failures, referred to above, were attributed to many causes :—

- Causes of Bank failures.**
- (i) The Directors of banks had very little knowledge of banking business.
 - (ii) Another type of directors was notorious for their over-shrewdness.
 - (iii) Loans without sufficient security were advanced.
 - (iv) The shares of banks were held in unreliable assets.
 - (v) Bank money was utilised to finance concerns of doubtful validity.
 - (vi) Banks sometimes indulged in "window-dressing" to make them look attractive, but really dividends were being paid not out of profits, but out of capital.
 - (vii) Lack of co-operation among the different banks, so that when one bank was in distress, others would not extend to it a helping hand.
- Special types of Banks—**
- (d) There are special types of banks like Co-operative Banks, Industrial Banks, Land and Agricultural Banks. As regards Industrial Banks, their want is being keenly felt. The Joint-stock banks cannot, and should not be allowed to, combine commercial and industrial banking. And their fundamental difference should not be overlooked. The Industrial Bank has to lend for long periods
- Industrial Banks—
How they help Industries.**

and has to be actively associated with the management of the industrial concern from its inception. Obviously, it cannot grant long-term loans unless it secures for itself long-dated deposits.

Land and Agricultural Banks are also conspicuous by their absence. Agricultural improvements also require long-term loans and Co-operative Credit Societies cannot undertake such transactions. And the system of granting long-term loans to cultivators, recovered in small instalments, was recommended by the Irrigation Commission of 1903. The general principle was also accepted by the government. But it has not yet materialised and both land-holders and cultivators have to raise loans by mortgaging their lands to money-lenders.

**Land and
Agricultural
Banks—how they
help
agriculture.**

- (e) The Government itself is a great banker. The postal department has very successfully introduced these banks which date from 1870. No specific reserve is kept in cash against the deposits received (the debt is therefore 'unfunded') and which are used for capital expenditure. In 1914 government offered special facilities to depositors by raising the limit of annual and total deposits and by helping their investment in government securities. The Savings Banks are particularly liked by small investors,

**Post office
Savings
Banks—
their
popularity**

**Post-office
Cash
Certificates**

The growing popularity of Post-office Cash Certificates, originally issued in 1917, is a hopeful sign that the hoarding habit is being replaced by the investing habit.

The principal clearing houses are located in Calcutta, Bombay, Madras and Karachi. The members of the clearing houses consist of the Imperial Bank, most of the Exchange Banks, the English banking agency firms and a few Indian joint-stock banks. Admission to membership in a Clearing House is by ballot.

From the above review it may be inferred that India is very imperfectly equipped with banking facilities. Among the most urgent necessities **Conclusion.** for India's industrial development is the extension of such facilities. The habit of investment is comparatively undeveloped in India. It is pointed out that an immense amount is locked up in ornaments and jewellery which, if released, would augur well in emancipating India from her present unsatisfactory economic condition.

Central Bank for India :—The question of India having a Central Bank, like the Bank of England, the Bank of France and the Bank of Germany has been under consideration, even for many years before the three Presidency Banks were amalgamated into the Imperial Bank of India in 1921. The Central Bank of a country performs many important functions, such as :—

Functions performed by Central Banks of the world.

- (i) The issue of notes under conditions of monopoly ;
- (ii) maintenance of the gold standard and currency reserves ;
- (iii) regulation of exchanges ;
- (iv) acting as banker to the government ;
- (v) also-acting as the bankers' bank ;
- (vi) co-ordination of currency and credit control.

India being a vast country, some authorities have doubted whether a Central Bank would be able to satisfy her varied needs adequately. On the other hand, it has been argued that even in the U. S. A. a centralised banking system has at last been adopted. Numerous advantages would accrue in case a Central Bank is established in India. A Central Bank would organise effectively the financial position of India. The Gold Standard and Paper Currency Reserves have assumed enormous sums and a Central Bank would be able to deal effectively with these reserves and at the same time safeguard the position of India.

The Hilton-Young Commission noticed one serious drawback of the Indian monetary and banking system.

Royal Commission on the drawbacks of the present currency and banking systems. The defect was that the control of currency and credit respectively was in the hands of two different authorities, the Government of India and the Imperial Bank. The natural consequence of the duality of authorities is a divergence of policy in the management of currency and banking reserves which stands

in the way of a monetary stability being achieved. The Commission accordingly recommended the formation of a Reserve Bank for India which would take over—

- Creation of a Central Bank and in vestiture of functions.**
- (i) the regulation of note issue,
 - (ii) custody of government remittances and also
 - (iii) act as the bankers' bank in the truest sense. The Commission also pointed out that India was one of the few countries in the world where control of currency was divorced from the control of credit and government has to carry out large financial transactions through its own agency. The Commission proposed that the Reserve Bank should be a shareholders' bank, like the Bank of England. It was to be independent of political control, as it was most desirable that the Central Bank would be free from the political pressure on matters relating to credit and currency.

The government accepted these recommendations and introduced a bill in 1927 (January) to give effect to these. A share-holders' bank was proposed with directors of commercial interests and government nominees. In the select committee the bill was changed from a shareholders' into a State Bank with a strong element of directors selected by

**Introduc-
tion of a
bill for a
Reserve
Bank and
the even-
tual with-
drawal of
the bill.**

the Legislatures. This changed the bill in a fundamental respect and government withdrew it, as the Secretary of State was reported to have objected to this drastic change. The Finance member, after conferring with the authorities in London, published another draft bill in 1928. The Bank was to be a shareholders' Bank and members of the legislature were precluded from becoming directors. The bill failed to secure the support of the legislature and was withdrawn. Another Reserve Bank is now under consideration in connection with the inauguration of the Federal Constitution.

CHAPTER 9

Consumption

Contents : Consumption ; wants and activities ; the standard of life ; effects of consumption on production ; problem of unemployment ; agricultural, industrial and middle class unemployment.

Wants and Activities.—The starting point of human activities is the existence of human wants. Mankind is born with a bundle of human wants the satisfaction of which is worth having and some wants are urgent and imperative. This is true of the barest physiological wants, such as, wants for food, clothing and shelter. With advance of civilisation, wants multiply, becoming more aesthetic and refined than formerly. We always feel compelled to secure the satisfaction of our wants which, left to nature, will remain unfulfilled. Human efforts are therefore directed to minister to these wants as best as possible. In fact, the economic life of man is a sumtotal of activities directed to satisfy the varied wants to the best advantage. Thus the relation between wants and activities is that wants give rise to activities. But all activities do not come into being in this way. Some activities create wants. But this should be regarded after all as an exception, the general rule being that wants precede and therefore create activities.

**Relation
between
wants and
activities.**

Consumption is the main aim or destination of production and the nature of consumption naturally

regulates the whole course of man's action. The outlook of life of the people of India is, on the whole, narrow and simple. The wants are comparatively few in number and are easily satisfied. The joint-family and the caste-system and social traditions have contributed in producing such an outlook. This simple standard of life is, however, being slowly transformed with impact of Western civilisation. This is specially noticeable in cities and towns, the rural areas remaining, more or less, unaffected. Engel, the Prussian statistician, after carefully studying a number of family budgets, laid down a few generalisations.

A simple Indian standard of life.

Its slow transformation.

Engel's Law of Consumption

His inferences were :

- (i) The smaller the income, the greater is the percentage of expenditure on food.
- (ii) As the income increases the expenditure for clothing remains practically the same.
- (iii) The same thing is also true as regards the percentage of expenditure for rent, fuel and light.
- (iv) As the income increases, a gradually growing percentage is spent on education, health, amusements, domestic servants etc.

Applying these laws to Indian conditions we notice a few peculiarities. The lower middle classes of India are much poorer than the ordinary labourers

of western countries. Another noticeable feature is that although the conditions of Indian labourers are miserable, an inordinate sum of money is expended on social ceremonies and funeral and friendly dinners.

**Application
of the Law
to Indian
conditions.**

The caste-dinner is not, however, as unwise a consumption as is oftentimes depicted. It is not a display of pomp of wealth. With it are associated certain virtues, such as piety, devotion and self-restraint. It is a merging of the individual ideal in the social.

This observation, however, is not true of all sorts of consumption. Consumption is, in many cases, unwise, extravagant and uneconomic. The selection of food and drink is ill-advised. This leads to mal-nutrition which detracts from efficiency and sound health. Rice, the staple food of the Bengalis and Madrasis, is lacking in protein and organic salts. This is why the wheat-eating people of the Punjab and the U. P. present a far better type of physique than that of the rice-eating races. What is most needed is a thorough overhauling in dietary and this may be done by propaganda. The problem after all is one of education, as education alone can eliminate the deep-rooted but unscientific traditions connected with dietetic matters. The Agricultural Commission have made one suggestion by way of improvement of the health of the people, the development of our fish resources as a diet of fish and rice; they consider, will sufficiently increase the food value.

**Import-
ance of
judicious
expendi-
ture.**

Standard of Life :—The general standard of life is pitifully low. The problem of Indian

Factors making for a rise in the standard of life.

poverty is staggering and the poverty of the masses is a by-word throughout the world. And if any improvements are taking place in the condition of the masses they are pain-

fully slow. A well-organised agricultural and industrial development will contribute towards increased productiveness and one hopeful sign is that India has launched upon a policy of an all-round agricultural and industrial regeneration. That there is taking place some improvement in the general standard of life cannot be gainsaid. India is now connected by a net-work of railways; and multiplication of third-class passengers and a greater resisting capacity of the people in years of scarcity and famines are hopeful indications. The substitution of improved varieties of crops and methods of cultivation, the cheapening of agricultural credit by the initiation of the Co-operative movement, the resuscitation of indigenous cottage industries and the conspicuous success achieved in the organised large-scale industries have all contributed in bringing about a slow rise in the standard of life. Legislative measures have been adopted for improvement of public health and sanitation. Medical discoveries have been possible because of well-directed state efforts. Both agricultural and industrial labourers have secured adequate protection from exploitation by the land-owning and capitalistic classes because of healthy tenancy and factory laws.

The above remarks will have to be taken as a mere slow beginning of a hopeful indication. So far as the masses of India are concerned, consumption is insufficient. Consumption goods are either necessities or luxuries, the former being subdivided into necessities for existence and necessities for efficiency. Of the unnumbered masses, it may be truly said, that they are not provided with the minimum of necessities for existence. The prevalence of customs and religious and social institutions has tended to perpetuate a comparatively low standard of life. And not only the standard of life continues to be low. A low standard of ignorance and a low scale of wages co-exist and account for the deplorable condition of the people. The productive efficiency is impaired and so the whole thing works in a vicious circle. An increase in the standard of life is most urgently needed. The people must be provided with more wages so that the primary as well as the higher wants may be satisfied. Finally, provision must be made for an enlargement of the general education. The economic value of education needs no elaboration. It adds to the labourer's intelligence and thus to his productive efficiency. Once he is educated, the Indian labourer will feel the importance of sanitation, leisure and proper recreation. These are satisfactions not of physical, but of the higher kind of necessities and the labourers must be made to feel that the satisfaction of the latter wants is of as much importance (if not greater) as that of the former wants.

Effects of Production on Consumption :—

Both production and consumption relate to utilities. Production means creation as consumption means destruction of utilities. Nothing can be produced without consuming anything, but one kind of utility is destroyed to produce another kind. Thus a man in eating his meal consumes, i.e. destroys the utility impregnated in it; but this is done to replenish his strength.

A distinction is made between producers' goods and consumers' goods. The former consist of raw materials, tools, machines etc. which indirectly satisfy human wants by contributing to the production of directly consumable goods. The latter consist of goods, such as food, clothing etc. which satisfy human wants directly.

All consumption, however, is not productive. The wanton destruction of goods involves no production. It must not be forgotten that, although all members of the community are not labourers, all are consumers. With some consumption is productive, just as with others it is unproductive. The consumer of the latter type may be called an unproductive consumer. Judicious consumption has one objective, namely, more production than consumption. An unwise consumption, on the other hand, (for instance, that of a glutton wasting his life's energies in frivolous food and drink) simply dissipates one's energies. This

remark also applies to senseless and extravagant expenditure, to the consumption of the wrong kind of food that leads to mal-nutrition and a physical deterioration. A judicious expenditure of money for consumption is a difficult matter and this is why it has been remarked that "to spend money well is a harder task than to earn money well".

Problem of unemployment :—The problem of unemployment in India differs in one fundamental respect from that in the industrially developed countries. In the latter countries, there exist two distinctly separate classes of labourers, agricultural and industrial, existing as two water-tight compartments. There a period of industrial depression engenders unemployment and the operatives cannot fall back upon agriculture for earning their livelihood, even for a temporary period. In India, on the other hand, 75 per cent of the population derive their livelihood from agricultural occupation. But agriculture is not a perennial source of employment. There is every year a seasonal unemployment in agriculture for about six months of the year. Failure of the monsoon causes a considerable distress, and unemployment is further aggravated. All agricultural operations are suspended and the large number of normally constituted agricultural population, thus disengaged, migrates to the industrial centres for work. Thus unemployment in the ranks of agricultural

Its peculiar nature in India.

Nature of agricultural unemployment.

labour is mostly due to the failure of rainfall, leading sometimes to famines. Unemployment is, however, inherent in the system of agriculture which cannot keep the agriculturists engaged throughout the year. This latter kind of unemployment is the slack-season unemployment.

The question of industrial unemployment, in India, is co-mingled with that of agricultural unemployment because of the agricultural character of industrial labour. In the slack season or in times of famine the agricultural labourer migrates to industrial centres. On the other hand, a certain percentage of the industrial labour temporarily give up their work during the agricultural season (i.e. during the time of sowing, transplanting and harvesting). And for obvious reasons, in times of industrial depression, the surplus operatives repair to their village homes in order to seek employment in agricultural occupation. This causes the pressure of the population on land and a universal under-employment. If the agricultural and industrial depression alternate, the mobility of labour from the less favourable to the more favourable occupation results in some mitigation of distress. In case, however, the depression in both the industries synchronises, the resulting distress is painfully acute.

Unemployment among the educated middle classes, though comparatively modern in its origin, is assuming an alarming proportion from

Industrial unemployment.
Middle-class unemployment.

day to day. And many are the contributory causes. The post-war industrial depression and a lowering

Causes : of the purchasing power is one cause.

The custom of early marriages and absence of prudential restraints multiply population and social institutions like the joint-family system discourage individual initiative. The defective present-day educational system, which is more cultural than vocational and technical, is another factor. But the most fertile cause is the over-crowding of the population on land (and agriculture after all is a precarious occupation) co-existing with an unsatisfactory industrial development. Hence stimulation of industrial development is of primary importance as it will create ample openings for employment of educated

Remedy. men. This will relieve the pressure on the land and lessen competition for it. At the same time, if agricultural industries also improve (and a simultaneous improvement in agricultural and industrial production is expected to produce a better-balanced economic system), the position of the remaining cultivators would also improve. Industrial improvement will react on agriculture and *vice versa* and this is the best way to ensure India's economic progress and solve the problem of unemployment. All other remedies, adopted or suggested, can have only a limited scope. And so long as the labour supply continues to be predominantly agricultural, schemes of Employment Exchanges cannot be productive of satisfactory results.

CHAPTER 10.

Economic Activities of the State.

Contents :—State and agriculture ; state and industry ; famines, relief and prevention.

State and agriculture :—Opinions widely differ as regards the true province of the State in matters relating to the economic pursuits. And whatever controversy there may be as regards state interference in the domain of industries, a wholly different view is put forward so far as the relation of the State to Indian agriculture is concerned. In view of the pre-dominance of agriculture, absence of large farms possessing sufficient capital, energy and initiative, and a general illiteracy, poverty and pursuit of unscientific methods of agriculture, state intervention has become all the more necessary. And it is undoubtedly true that the whole movement towards improved agriculture has initiated with the government. We may give an account of the various land legislations and the agricultural policy of the government in order to prove that the constructive policy of the state has been thorough-going and most successful.

Dr. Voelcker, Consulting Chemist to the Royal Asiatic Society, sent out in 1889 to report on the then existing state of Indian agriculture, opined that agriculture was ill-equipped and stressed on the im-

portance of agricultural education and improvements.

Establishment of Imperial Institute at Pusa—its many-sided activities.

Before his coming to India, efforts were made to establish Departments of Agriculture in some provinces, but these were unsuccessful. Dr. Voelcker's recommendation, therefore, marks the real beginning of action. A few experts were appointed

and in 1904 Lord Curzon established the Imperial Institute at Pusa. It carries on research and conducts experimental farming and maintains an agricultural college. Another agricultural college and Research Institution was opened at Poona in 1908. Similar colleges were subsequently started at Nagpur, Coimbatore, Cawnpur, Lyalpur and Mandalay.

Reconstruction of Provincial Agricultural Departments.

The Imperial Institute maintains cattle breeding farms. The Provincial Agricultural Departments were also reconstructed in 1915 and their activities enlarged. Many agricultural stations are now in existence. They conduct researches, carry on demonstrations and an intensive propaganda and facilitate in the sale and distribution of seeds and implements.

Since the Reforms, agriculture is a transferred subject. The Imperial Department of Agriculture is now occupied with problems of all-India importance. The work of co-ordinating the activities of the Provincial governments now devolves upon the Agricultural Adviser to the Government. The Conferences of Ministers and Directors of agriculture and the Board of

Agriculture (a link with the Indian States) presage a great future for the all-pervading agricultural industry.

Both the Imperial Institute at Pusa and the Provincial Agricultural Departments carry on works in connection with,—

- (a) experiment and research for improving indigenous crops and introducing exotics, use of improved implements, manures and better breeds of cattle ;
- (b) propaganda and (c) education.

**Introduc-
tion of
improved
crops.** That the agricultural departments have succeeded in introducing improved crops and thereby adding to the value of land are incontrovertible facts. For instance, about 9 million acres of land are devoted to the cultivation of improved varieties of crops and the increased value which improved varieties of jute, cotton, sugar-cane, rice and wheat fetch to the cultivators is estimated at Rs. 11½ crores.

**Initiation
of the
Co-opera-
tive
movement.** The State has also done much to remove agricultural stagnation by helping the agriculturist to free himself from the shackles of the village money-lender. The Co-operative movement aims at his emancipation from indebtedness and providing him with cheap and facile, but not unduly facile, credit. Co-operation has also provided facilities for marketing agricultural

produce, purchase of agricultural implements, seeds etc.

State construction of Irrigation works

The agricultural prosperity owes much to the comprehensive irrigation policy of the government, and some of the notable irrigational works are marvels from the engineering point of view.

Development of Forest resources.

Development of forest resources has also engaged the attention of the government, as their preservation and utilisation are of vital importance in the rural economy of India.

Scientific exploitation of fishery awaited.

India's potential supply of fishery is rich, and it awaits a scientific exploitation. Departments of fisheries have been instituted in many provinces. Many collateral industries in connection with fishery are capable of development and Madras has taken the initiative in the matter.

Salutary Land legislations.

Finally, the land policy of the government is worth recording. The motives that actuated the government to pass tenancy legislation were to stop the evils of arbitrary enhancement of rent and eviction of tenants from the soil and thus afford him protection from the rapacity of the landed proprietor. The tenants have been given security of tenure and they are compensated for improvements. Steps have also been taken to prevent land alienation

to non-cultivator classes. Of the various laws which the government has passed from time to time, the following deserve special mention :
Instances. The Punjab Land Alienation Act of 1901, the Land Improvement Loans Act of 1883, the Agriculturists' Loan Act of 1884, the Deccan Agriculturists' Relief Act of 1879, the Usurious Loans Act of 1918 (amended in 1926)

State and Industry :—The East India Company without showing any solicitude for the nurturing of the Indian industries, showed special interest in certain industrial products of the country in which it traded. With the transference of India to the crown, the 'laissez faire' policy of the Government of Britain was extended to India and the Indian Government assumed the role of a disinterested on-looker. The only thing that the Government did in matters industrial was to give a modicum of technical and industrial education and collect and disseminate industrial and commercial information.

Industrial policy of the state down to the end of the 19th century.
 Absence of manufacturing industries and predominance of agriculture reacted unfavourably on the economic life of the people. Later on, government was obliged to find a remedy for famines and the distress which a famine causes. The Famine Commission of 1880 felt the need of diversified employments and recommended that Government might help "in

fostering the inception of new industries." The Madras Government made the first attempt to tackle the problem and pioneer industries were started with state help. In 1898 Mr. Chatterton got a small grant from government for experiment in the manufacture of aluminium. The attempt proved a success and permission was obtained in 1900 from the Secretary of State to employ Mr. Chatterton for 3 years for developing and organising technical trades and industries.

Lord Curzon, feeling the need of a co-ordinated policy at the auspices of the Imperial Government for stimulating industries, created in 1905 an Imperial Department of Commerce and Industry. Following Madras, U. P. took up the matter of industrial development with a spirit of thoroughness. Madras also succeeded in establishing the chrome-leather industry. Similar developments in other provinces naturally raised high hopes in the minds of the people that government would adopt a more forward policy, when Lord Morley, in 1910, disapproved of state assistance to industry except by strictly confining to industrial instruction. Lord Crewe adopted a more liberal attitude and gave a greater latitude to the Indian Government than his predecessor Lord Morley. However reassuring this attitude might have been, the Government of India was in doubt as to whether they would again directly encourage industrial activities. Their enthusiasm had been damped already because of the cold attitude of Whitehall.

The War and the lessons it taught were instrumental in the abandonment of the orthodox 'Laissez faire' policy. In fact the War brought about a new Orientation. The view held so long that state interference is injurious to trade was already greatly modified because of certain successful industrial activities of Provincial governments. For instance, Madras achieved brilliant results in aluminium, leather and dyeing industries. Bengal was showing a good record in silk. Cottage industries were being revived in the C. P. U. P. could boast of a few industries like sugar, weaving and engineering industries. Lord Curzon also initiated a new policy of the purchase of government stores from India and thus began to encourage local production. Circumstances were thus ripe for a final abandonment of the 'Laissez faire' policy, when India's demand for a complete industrialisation on modern lines was ably indicated by the publication of the Industrial Commission Report (1916—1918). Another contributory cause was the successful working of the Indian Munition Board which furnished many opportunities to the Industrial Commission to have the value of their epoch-making recommendations tested.

The constructive proposals of the Industrial Commission rested on two propositions :—

- (a) That the future India should be made more self-contained in respect of men and

**Industrial
Policy since
1914.**

material and for achieving this government must actively associate themselves with the industrial development.

**Policy laid
down by
the Indus-
trial Com-
mission.**

- (b) "That it is impossible for government to undertake that part, unless provided with adequate administrative equipment and fore-armed with reliable scientific and technical advice."

**Govern-
ment action
on the
Report.**

The Government received the recommendations in a sympathetic spirit and created the Imperial Department of Industries. The Department acts as a liaison department between the different Provincial Governments which were established in pursuance of the recommendation of the Industrial commission.

Under the Reforms, the development of industries is a transferred subject and is controlled by a Director of Industries. The department stimulates the promotion of industries in diverse ways, for instance,—

- (i) by giving technical and financial aid to existing industries (by monetary grants, loans, gifts of land etc) ;
- (ii) by stimulating research for developing and fostering industries ;
- (iii) by providing for technical training, improving marketing conditions etc.
- (iv) by co-ordinating the works of the different

departments engaged in bringing about an economic regeneration of a province.

The policy of state intervention in the promotion of industries having been accepted, the question of the fiscal policy naturally came up for examination. The Joint Select Committee on the Government of India Bill (1919) expressed itself in favour of full fiscal autonomy for India and this principle was accepted by the Secretary of State in his Despatch to India in 1921. Reference has elsewhere been made to the financial necessities of the government during the period of the War and the post-War crisis. The Government turned to the customs revenue. The general rate of import duties was steadily increased and the government approximated more and more to the protectionist policy. The Fiscal Commission recommended the adoption of a policy of Discriminating Protection and the appointment of a Permanent Tariff Board who would examine the position of any industry seeking protection in the light of the conditions which the Commission laid down.

Appointment of the Fiscal Commission (1921) and adoption of a policy of Discriminating Protection.

Safe directions for stimulating Indian industries.

Two factors stand in the way of India taking the fullest advantage of the policy of protection. Regarding the financing of industries there is one drawback arising out of insufficiency of our capital assets. And foreign capital has

so long played a great part and the part is not yet played out. It has been apprehended that the imposing of tariff duties may invite foreign capitalists to come over to India and establish industries and thus exploit our natural resources. This will mean a transfer of control of industry from Indian to foreign hands, leading to the impoverishment of the country.

Another obstacle to the path of industrialisation lies in the lack of transport facilities and of widespread banking system and absence of scientific knowledge of the masses. Illiteracy is the most formidable obstacle and impedes the progress of the country. An intellectual awakening and the development of the store-house of inventive genius are the crying needs.

Famine.—The Famine Commission of 1867 defined 'famine' as 'suffering from hunger on the part of large classes of the population'. But its meaning has undergone a change as its subsequent history is bound to reveal. What a famine causes now is a temporary dislocation of employment consequent upon failure of crops. No doubt deaths still occur from famine, but the rate of mortality has been considerably reduced.

Introductory.
What
'famine'
meant in
the past
and what
it now
means.

India continues to be a predominantly agricultural country, but the famine problem has been revolutionised owing to the construction of railways and irrigation works and a perfection in the machinery of

famine relief. What the State is called upon to do in a year of famine is to provide work and wages for the suffering population.

In a moderately good year India produces and retains for home consumption enough food to maintain the population in tolerable health and efficiency, provided the means of transport for distribution of food is adequate. A failure of monsoon causes a local deficiency of crops. But taking India as a whole, there is sufficient food if export of food stuffs is stopped and famine relief is properly administered. What happens in a year of wide-spread famine is that, on account of insufficiency of agricultural products, the prices go up and the famine-resisting capacity of the people is put to a severe strain, sometimes debilitated. That there is enough food, even in a year of famine, to go round is evidenced by the fact that India continues to export raw materials and food stuffs all of which cannot be locally disposed of owing to an inordinate rise in their prices. A famine, thus, to-day is not scarcity of food as scarcity of money to buy food. A famine is a disease of an agricultural country and failure of the rains means some failure of crops. But the latter does not necessarily precipitate a famine, as generally more than one crop is harvested in a year. Hence every deficiency or overplus of rainfall does not mean disaster for the cultivator and those parts of India where irrigation has made an

Famine of to-day is a scarcity of money to buy food, and not scarcity of food.

inroad may be said to be immune from the danger of famine. The history of famine in India bears no evidence of a drought extending over the whole of India. Such an event is pronounced by meteorologists to be an impossibility. Hence every improvement in the means of transport and communication must decrease the fatality of local deficiency which, in the past, registered loss of lives from starvation. To repeat, transport facilities, so vastly improved, help in the transfer of food grains from areas where they have plentifully grown to the areas suffering from a deficient production, and the horrors of famine have been considerably minimised.

A universal failure of crops throughout India is an impossibility.

Causes and Remedies of Famines.

The causes may be broadly classified under two heads—physical and economic.

Rainfall is the life blood of agriculture and hence the importance of the monsoons in the rural economy of India. India is predominantly agricultural, and Indian agriculture is a gamble in rains, as the success or otherwise of the efforts of the cultivator depends upon the amount and proper distribution of this uncontrollable factor. "It is not in the power of man to prevent drought in India or, as long as the country is mainly agricultural, to prevent drought from causing famine : all he can do is to restrict and mitigate the resultant suffering. Plagues of locusts and

Physical.

Famine regarded as a disease of an agricultural country.

insects and disease also are sometimes responsible for failure of crops.

The want of resisting capacity, chronic poverty, indebtedness and improvident habits of the cultivators are powerful causes. The impoverished condition of the Indian peasants is proverbial; they are improvident and without resources which might enable them to weather a period of distress and starvation. Poverty drives the ryot into indebtedness and the money-lender charges an unusually high rate of interest. The peasant proprietor, unable to repay the loan, is gradually expropriated.

The peremptory occasion for borrowing arises, as is often argued, when the Government revenue is to be paid. This taxation is said to fall heavily on the cultivators and reduces them to a position of chronic poverty. They spend borrowed money on ceremonial occasions and the habit of saving is non-existent. They have little power of realising the future and do not save even when they have a savable surplus income. General illiteracy constitutes a serious handicap to saving.

The Government, truly conscious of the gravity of the problem of rural indebtedness, have introduced two remedial measures. Easy alienation of the ryot's holding is prevented by the passing of the Punjab Alienation of Land Act of 1901 by which non-agricultural

Economic.

Poverty, improvident habits and indebtedness of the cultivators.

Government measures against rural indebtedness.

classes are not allowed to buy land from a member of an agricultural tribe, nor to take it in mortgage for more than 20 years. This undoubtedly

Punjab Land Alienation Act. prevents the expropriation of the peasant proprietor by the rapacious money-lender. The same principle has been copied in Bundelkhand, Bombay and Oudh.

The other measure enables the ryot to make him independent of the usurious *mahajan*. The Co-operative

Co-operative Credit Societies Act. movement was inaugurated in 1904 by the passing of the Co-operative Societies Act, to combat the evils arising from the dependence of the cultivators on money-lenders

for supply of loans. Its object is also to inculcate habits of economy, self-help and thrift. They secure loans at moderate rates of interest and they also learn to acquire the virtue of applying the borrowed funds to productive objects.

The late R. C. Dutta and others regarded the heaviness of the land tax and a rigidity of its collection as a

Oppressive-ness of Land tax as a cause. cause of rural indebtedness. It has been argued that the ryot often borrows for paying Government land revenue. This however is a minor cause of indebtedness.

A relinquishment of land revenue, however unjustifiable on economic grounds, will only act as a stimulus to extravagance and will be more than neutralised by an increase of rural population,

Refutation of the argument. The land revenue has become steadily moderate in assessment and increasingly elastic in collection. The rent laws in every province have been revised in favour of the cultivators.

Extension of the permanent settlement as a remedy. Another suggested remedial measure is the extension of the permanent settlement throughout India. R. C. Dutt argued that the placing of a limit to the Government demand in the permanently settled tracts of Bengal has produced the following beneficial consequences :—

- Grounds in support of the contention.**
- (a) Bengal cultivators are more prosperous and better able to help themselves in years of bad harvest than cultivators in any other part of India.
 - (b) Agricultural enterprise is fostered, cultivation extended, wealth accumulates and is expended on works of public utility.
 - (c) A feeling of loyalty to the British Raj has been fostered.

Refutation of the argument. As against this contention, it has been urged that the permanent settlement is no remedy for the prevention of famines and it has also been pointed out and supported by statistical data, that Bengal has not been immune from famines even after the introduction of the permanent settlement. And if the position of the Bengal tenants is converted

"into one of exceptional comfort and prosperity", it is not because of the permanent settlement, but because of the healthy tenancy legislations passed by the Government to check the high-handedness of the zamindars who used to rack-rent, oppress and impoverish the tenant in various ways.

The other protective measures suggested for the prevention or mitigation of famine are the extension of railways and irrigation. The benefits of railways and irrigation, giving the cultivators an assured supply of water throughout the year, have never been disputed. But there is a tendency, in some quarters, to detract from the advantages of railways. And the Famine Commissions of 1898 and 1901 recommended that a more prominent place should be given to irrigation than railways in the future programme of famine insurance.

The apologists of railway constructions have, however, argued that railways have equalised prices all over India and though the habit of storing grain as a famine insurance measure is destroyed, they have reduced the intensity of distress. Great reserves of India have been substituted for petty hoards, and finally by creation of wide markets railways have helped the landowners and cultivators to secure the advantages of a high price-level.

The granting of state loans, at moderate interest,

called *taguavi* loans, to agriculturists to enable them to construct wells, water-courses, as supplementary agencies, was recommended by Famine Commissions. These loans, however, are granted for *specific* purposes. There is also a delay in distribution and unless the government has a mint of money, set apart for the purpose, the needs of the cultivators cannot be adequately provided for.

Disforestation is another cause of famine. Forests have a great influence on the climate and the fertility of the soil. "As forests are dependent for existence on water supplied by precipitation, by percolation, or by inundation, so they are locally responsible, in India, even more than in the more temperate countries of the west, not only for the storage of rainfall water in the soil, given off subsequently by gentle flow, but also for the supply, by transpiration from the foliage, of moisture to the air". The harmful effects of heavy rainfall in localities denuded of forests necessitate works of afforestation. Hence forests are a valuable national asset. They render the climate more equable, regulate the water-supply, increase the fertility of the soil, reduce velocity of air currents and the forest leaves serve as manure for the fields and finally constitute a source of revenue to the state. The Government have instituted the Forest Research Institute at Dehra Dun and it is doing useful work of research and experimentation and

**Advance
of state
loans, call-
ed taguavi
loans.**

**Disforesta-
tion, a
cause, and
afforesta-
tion, a
remedy.**

forest experts are working out schemes for the conservation and development of forests by adoption of scientific methods.

Another remedy proposed is emigration. But foreign emigration must be left out of account as being distasteful to the people and resented on social grounds. And unless there is some check on the increase in population, those who emigrate are almost immediately replaced. Regarding inland emigration, perhaps, the only successful scheme is that of colonisation in the Punjab.

The development of agriculture and agricultural industries and their diversification constitute important remedies. The question that suggests itself in this connection is: Can large-scale manufacturing industries serve to afford the necessary relief? In European countries, after the Industrial Revolution, and increasing proportion of the population was diverted from agricultural to various manufacturing industries. In India also there is a popular clamour for a similar movement from agriculture to industries. But for certain reasons peculiar to Indian conditions, it may be remarked, India's economic salvation lies not in an exclusively large factory type of industries, but in the revival and resuscitation of cottage industries to as large an extent as possible.

Famine Relief Measures :—Mention has already

been made of the part played by railways and irrigation when droughts come. The measures may be characterised as protective measures, as these are calculated to fortify the people against the calamity. The other measure, called remedial, relieves distress of the people. The view of the responsibility of the state in times of famine was incorporated for the first time, in the famous order of 1868 which runs as follows: "Every district officer would be held personally responsible that no deaths occurred from starvation which could have been avoided by an exertion or arrangement on his part or that of his subordinates". But the system of liberal but unmethodical charity was given up and a policy of striking a happy mean between grant of state relief and the resultant demoralisation was finally initiated.

Standing preparations made in ordinary times are :

- | | |
|-------------------------------|---|
| Standing Preparations. | (a) Important informations regarding climatic conditions, growth of crops and prices, births and deaths are kept. Programme of relief works is kept ready and revived every year. The country is mapped out into relief centres and reserves of tools and plants are stocked. |
| Danger signals. | (b) When rains fail a careful lookout is kept for danger signals. These consist in a rise in prices, uneasiness of the people and aimless wandering in search of employment, contraction of private charity, drifting of the |

paupers in towns and commission of petty crimes.

**Preliminary
action.**

- (c) This is the time for preliminary action. Government makes financial arrangements and declares their policy as based on moral strategy. Meetings are held and government policy is explained and non-official sympathy is enlisted. Committees are appointed to organise private charity, and preliminary list of helpless persons who need gratuitous relief is made. Loans for agricultural purposes are made and suspension of land revenue is declared.

**The period
of test and
relief.**

- (d) The stage of actual relief now comes. Test works are opened. Unskilled labourers are employed. The conditions of work are strict, not unduly repellent, as the object is to ascertain whether the people really need relief. When test works reveal real distress, relief works are opened and distribution of gratuitous relief takes place in accordance with the principle laid down in the famine codes. Poor houses are opened in towns. The intensity of distress is sometimes marked by an outbreak of cholera.
- (e) Now comes the last stage with the advent of the rains. Relief works are closed, followed by an extension of local gratuitous

**Rains
policy
and closure
of relief.**

relief. The people are moved from large to small works near the villages and liberal advances are made to the cultivators for the purchase of plough, cattle and seed. Gradually all relief works, except a few kept for supporting the aged and the infirm, are closed. When the earliest of the autumn crop is ripe, the few remaining relief works are closed and gratuitous relief ceases. The famine comes to an end by the end of October. Quinine is distributed during September and October and medical staff is kept ready to deal with malaria and cholera which generally break out.

**Railways
and Irriga-
tion works
—their
compara-
tive merits
as famine
protective
measures.**

**Railway
acts as a
food distri-
butive and
irrigation
as a food
productive
agent.**

Much discussion has centred round the efficacy of railways and irrigation as famine protective measures. Their claims, however, are not conflicting, but rather supplementary. Railways do not, of course, help in increasing the food supply as irrigation works do. But they help in the quick transportation of food from areas of surplus production to those suffering from a deficient production. And by railways alone can the necessary rapidity of transportation be achieved. The means of production and distribution must go hand in hand and irrigation alone cannot solve the famine problem. The government of India has been criticised for not spending more on

the promotion of irrigation than on railways. But it must be borne in mind that there is a natural limit beyond which irrigation cannot be profitably carried. The conditions necessary for successful irrigation—sufficient and reliable supply of water, and a large and continuous demand to ensure a regular payment of rates for water—are not always present. There is also a physical limit to irrigation even in suitable areas. Construction of irrigation works

The one, therefore, is complementary to the other.

sometimes leads to a rise in the level of the subsoil water and the resulting water-logging of the soil and an increase of malaria. Finally, the protective value of the

most important irrigation works which have converted depopulated and waste lands of the Punjab into un-failing granaries depends on the presence of railways which alone can carry quickly and cheaply the surplus produce to areas which need it most in times of famine.

Until 1878 there was no regular provision for famine expenditure. It was then recognised that famine is not to

Note on the Famine Insurance Grant.

be regarded as an extraordinary phenomenon and that expenditure for the relief of the famine-stricken people should be met from current revenues. - And on the basis of past

expenditures, a sum of Rs. $1\frac{1}{2}$ crores was provided in the budget. The actual relief of famine was the first charge on the grant, and the surplus, if any, was devoted to the construction of protective works and then for the reduction or avoidance of debt. Expenditure on

famine relief continued to be Provincial charge up to 1907 when it was made an Imperial liability. In 1917 this arrangement was discontinued, the liability became divided, three-quarters being Imperial and a quarter Provincial. Under the Reforms, famine relief is a Provincial subject and has to be met out of Provincial revenue.

CHAPTER II.

Public Finance.

Contents: Revenue and Expenditure; Central and Provincial Finance; sources of Imperial Revenue; items of Expenditure; Provincial Finance; Local Finance; Public Debt.

Before proceeding to an examination of the various sources of revenue and items of expenditure and their co-relationship, one condition which regulates the finances of India may be noted. India has to meet large commitments in London, technically known as the "Home Charges" which require annual payments varying between 25 to 30 million pounds.

One or two peculiarities of our financial system may be noted. There is a preponderance of indirect to direct to taxation. Another feature is that India being a predominantly agricultural country, the revenue is largely influenced by the character of the season. But it is hoped that in future the Indian budget will no more be 'a gamble in rain.'

Central and Provincial Finance :—Before the War there was one budget for India as a whole, the Central government being the only taxable authority. All revenues went into the coffers of the Government of India. This system developed into that of 'divided heads'. The transactions of local governments were included in the

**History of
Provincial
Finance.**

Central budget, and the revenues of the former were derived from sources of income which were shared with the Central government. With the introduction of the Reforms, a complete separation between the central and local finance has been introduced. Thus

Imperial and Provincial sources of revenue. Land revenue, Irrigation, Excise and Stamps are Provincial sources of revenue. And the Imperial sources are Customs, Taxes on Income and Salt, Profits from Railways, Irrigation, Currency and Mint, Posts and Telegraphs. The divided heads of revenue having been abolished, some have been made imperial, the rest provincial.

Institution of Provincial contribution, its final disappearance. This meant a heavy initial monetary loss to the Central government which had to be compensated by annual contributions from the Provinces. This continued so long as the Imperial finance did not improve to permit of any remission of Provincial contribution. With the improvement of the Central finance, Provincial contribution began to be reduced and in the budget of 1927-28 there was an experimental abolition of Provincial contribution. It was finally relinquished in 1928. With these peculiarities, we may enumerate the main heads of revenue.

Sources of Imperial Revenue—Since 1920 there has been an expansion of the revenue under this head, customs being now the most elastic and fruitful source. The Pre-mutiny general import duty was 5 per cent, later raised

Customs (Import and Export duties.)

to 10 per cent, in some cases to 20 percent, to be reduced again to 5 percent in 1875. The agitation of Lancashire manufacturers led to the total abolition in 1882. To tide over the financial difficulties due to the fall of exchange a 5 percent duty was reimposed in 1894. But yarns and cotton fabrics were admitted free of duty. Financial difficulties, however, persisted and hence in that year cotton piece goods and yarn were subjected to a 5 percent duty, a countervailing cotton excise duty of 5 percent being imposed upon all Indian mill-made yarn of 20 counts and upwards. This 5 percent duty (import and excise) was reduced to $3\frac{1}{2}$ percent in 1896. A countervailing duty on bounty-fed sugar was imposed in 1899. The main features of the tariff system were thus a low general import duty for revenue purpose with exceptions for urgently needed goods and higher import duties on articles of luxury. The free-trading principle was transformed during the War as the government was hard pressed for revenue and the fiscal policy underwent a drastic change.

The general duties were accordingly raised in 1916 from 5 percent to $7\frac{1}{2}$ percent, but the import and excise duties on cotton remained unaltered at $3\frac{1}{2}$ percent. Export duties were levied on tea and jute. In 1917 the import duty on cotton piece-goods was raised to $7\frac{1}{2}$ percent (but the excise duty was left unaltered

Early history of customs duties

Counter-vailing cotton excise duty.

A gradual transformation of the free trade principle.

at $3\frac{1}{2}$ percent). Raw hides and skins were subjected to export duties, one object being to protect the Indian tanning industry. In 1921 the general import duty was further raised to 11 percent, to 15 percent in 1922 and duties on luxuries were steadily increased. The cotton excise duty was finally abolished in 1925.

From the above it is clear that the customs duties have been repeatedly raised, both as a protective measure and for revenue purposes. The yield from customs in 1930-31 was more than Rs. 46 crores and the estimated revenue in 1933-34 is over Rs. 50 crores.

This tax was first imposed in 1860, levied at the rate of 2 percent on incomes between Rs. 200 and Rs. 500, incomes above Rs. 500 being assessed at 4 percent. It was repealed after five years, to be reimposed in 1869 and abolished in 1873. The present schedule was consolidated in the Act of 1886, and all incomes, other than agricultural, were assessable. In 1916 the rate was enhanced and a progressive rate on incomes of and above Rs. 5000 was imposed. In 1917, in addition to the income tax a super tax in respect of incomes exceeding Rs. 50,000 was levied on an ascending scale. The income tax rates for higher incomes were raised in 1921 and 1922. The taxable minimum is Rs. 2000. The receipts in 1931-32 were nearly Rs. 17 $\frac{1}{2}$ crores.

The receipts under this head include those from the manufacture of opium and from sales for export. The manufacture is a government monopoly and opium grown in Indian States, known as "Malwa" opium, can enter British territory on payment of heavy duties. The revenue was large during the 19th century, but the present revenue is of minor importance because of the policy of checking and finally stopping export to China. It has been decided to reduce the total exports, since 1926, by 10 per cent, every year, so that the exports will totally cease in 1935. The internal consumption is also restricted to medicinal and scientific purposes. Excise opium (i.e., for internal consumption) is sold to Provincial governments who retail it to licensed vendors at fixed rates. The yield from opium in 1931-32 was Rs. 2,07,41,533.

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Recent decline in revenue.

From 1883 to 1903 the duty on salt was Rs. 2. 8 as. per maund. In 1903 the duty was reduced to Rs. 2, in 1925 to Rs. 1-8a.-0 and in 1907 to Re. 1. In 1916 it was increased to Re. 1-4-0, doubled in 1923, again halved to Re. 1-4-0 in 1924, again raised to Re. 1-9-0 from 30th September 1931. Revenue is derived both from import and excise duties.

The tax on salt has been the subject of adverse criticism on the ground that it imposes a heavy burden on the poorest classes. The defenders have, however,

argued that it is levied on fiscal consideration and that it is the only tax which the masses have to pay. The yield was a little over Rs. 8½ crores in 1931-32.

Receipts from Commercial undertakings :—

These include the net revenue from the Railways, Post office and Telegraphs. Down to the end of the 19th century the receipts from all these resulted in a net loss to the State. Railways yielded a revenue for the first time in 1899 and the Commercial Services have since then proved remunerative. In 1931-32 Railways yielded over Rs. 33½ crores, Posts and Telegraphs Rs. 16½ lacs.

Receipts of Military and Civil Departments, Currency and Mint and interest on moneys lent are also productive of revenues.

Provincial Contributions, as long as they existed, also provided the Imperial Government with revenue, but these have been abolished since 1928-1929.

The total revenue from the aforesaid heads together with miscellaneous receipts amounted in 1931-32 to Rs. 1,21,64,65,714.

Expenditure :—The chief heads of expenditure are Debt Services, Military Services, Collection of Revenue, Commercial Services, Civil Administration, Currency and Mint, Civil works and Miscellaneous.

Debt Services :—These include interest on Ordinary and Productive debts and other obligations.

Expenditure under this head in 1931-32 was nearly Rs. 19½ crores.

Military Services :—Expenditure under this head amounted to a little over Rs. 55½ crores in 1931-32 and the budget estimate for 1933-34 is nearly Rs. 50½ crores. Since the Inchcape Retrenchment Committee (1922) reported, many economies have been introduced. Thus the Military expenditure which was more than Rs. 87½ crores in 1920-21 was reduced to Rs. 56 crores in 1925-26.

Collection of Revenue :—The expenditure under this head came up to a little over Rs. 4 crores in 1931-32.

In the same year, Railways cost more than Rs. 33½ crores, Posts and Telegraphs a little over Rs. 25½ lacs, Civil Administration more than Rs. 12½ lacs, Currency and Mint Rs. 76 lacs, Civil works Rs. 2½ crores and Irrigation Rs. 21½ lacs. Government has also to incur expenses of a miscellaneous nature.

The expenses of the Government of India, all told, charged to revenue, amounted to Rs. 1,33,39,38,991 in 1931-32. The total revenue in the same year was Rs. 1,21,64,65,714, thus leaving a net deficit of Rs. 11,74,73,277.

Provincial Finance :—*The Principal sources of revenue* assigned, under the Reforms, to the Provincial Governments include the following: Land Re-

venue, Irrigation, Excise, Stamps, Registration, Forests and receipts from Provincial Departments. Provinces have been given certain powers of borrowing and imposing fresh taxation, and a share in the growth of revenue derived from Income tax in a Province.

Expenditure :—Provincial expenditure is incurred for the Reserved and Transferred Departments which are :

Reserved :—Land Revenue and General Administration, Police, Jails and Justice, Debt Charges, Pensions etc.

Transferred :—Education, Medical relief and Public Health, Civil works and other transferred expenditure.

The estimated revenue of the Government of Bengal for the year 1932-33 is Rs. 11,84,74000 and the estimated expenditure for the same year is Rs. 11,72,74000, leaving a closing balance of Rs. 12,00,000.

Local Finance :—The local bodies are under the Provincial Governments. There are separate Acts for the Corporations of Calcutta, Bombay and Madras. Each Province has its Municipal and District Boards Acts by virtue of which urban and rural boards are constituted. The scope and powers of these institutions have of late been much widened by Provincial legislation.

As 90 percent of the population lives in rural areas,

the importance of these local institutions calculated to develop local initiative and enterprise cannot be overemphasised. It goes without saying, that success in running them depends upon public spiritedness and resourcefulness and the securing of the national minimum of efficiency of the local bodies.

The Boards pass their estimates, subject, in certain cases, to the previous sanction of the District Officer or the Divisional Commissioner.

Their functions are either obligatory or optional, the former having priority over the latter in the allocation of local funds. The receipts of local bodies are made up of :—

- (a) income from taxes and fees,
- (b) rents from markets, grants-in-aid from Provincial Government. The sources of income of urban boards are the taxes on houses and latrines, octroi, terminal tax, while rural boards depend mainly on land cess. The expansion of their resources is a national necessity.

The expenditure is incurred according to the budgetary provision and the estimates cannot be exceeded without the express sanction of the local authorities.

The local bodies can raise money by loans, either from the Provincial government, or, with the sanction of the Government of India, from the open market.

They generally fight shy to increase local taxes and this is one of the reasons why they cannot embark upon fresh spheres of activities.

Public Debt :—Our public debt had its origin in the wars of the E. I. Company and the debt which the Government of India inherited from the Company was purely of an unproductive nature. The continued wars which the Company had to undertake steadily added to the debt. Thus the debt of India was £. 7 million in 1792, £. 30 million in 1829 and by the middle of the 19th century it was more than £. 51 million and in 1858 it was as high as £. 69½ million. The Mutiny caused huge additions to the debt and it went up to nearly £. 129 millions in 1876.

After the passing of the administration of India into the hands of the Crown, a new policy was inaugurated:

The original public debt was exclusively Unproductive. The Government of India embarked upon a policy of reducing the "ordinary" (later known as 'unproductive') debt which, however, synchronised with another, namely, public borrowings for productive purposes, such as, construction of railways and irrigation. But from 1878, the surplus revenue was utilised for productive expenditure and the available surplus of any particular year enabled Government to avoid creating loans to that extent. Thus by a mere adjustment, the unproductive

Subsequent debt incurred for Productive purposes.

debt was being steadily reduced with an automatic increase of the productive debt. Continuation of this policy would have completely extinguished our debt by 1917. This is proved by the fact that the unproductive debt was Rs. 105 crores in 1900 and was reduced to Rs. 3 crores only in 1915-16. But India's war contribution of Rs. 150 crores, the expense of New Delhi and the post-war deficits of five years caused an inflation of the unproductive debt by leaps and bounds.

Classification of Public Debt.

Funded and Unfunded debt.

The different ways in which the Public debt is classified may now be enumerated :

- (a) The debt is either funded or unfunded and the time of repayment of the loan is the basis of this classification. The debt which is repayable within a year of the time when it is incurred is called 'floating' or 'unfunded' debt. Such are the Treasury Bills, Post Office Cash Certificates and Postal Savings Bank Deposits. The debt for which the government is under no obligation to repay the principal, or has to do it after some years is called 'funded' debt. It is worth remembering that many governments, when they cannot repay their short-dated loans on maturity, 'fund' them into long-period obligations.

The funded debt is subdivided into 'terminable'

and 'interminable' debt. The debt the principal of which need not be repaid is called 'interminable' debt, the terminable debt being liquidated after a specified period.

Funded debt further sub-divided into Terminable and Interminable debt.

Productive and Unproductive debt.

(b) Another basis of classification is to regard the debt either as 'Productive' or 'Unproductive' debt. Productive debt is fully covered by assets which are expected to yield an income sufficient to pay interest on the debt and also some additional profits. The unproductive debt, on the other hand, is a dead-weight burden on the state-resources and the interest is met from the general revenues. If a loan is spent for purposes which are not *directly* remunerative, but expected to increase the economic resources of the country (as for instance, educational expenses), it does not become productive on that score.

External and Internal debt.

(c) Still another method of differentiation is to classify the debt according as it is 'internal' or 'external'. The internal debt is in the hands of the citizens of a state, the external, in the hands of aliens. The distinction is important as the nature of the debt has its effect on political, social and economic life of the people.

(d) Finally, the debt may be regarded either

Central and Provincial Debt. as 'central' or 'provincial' according as the loans are raised by the Central government or the Provincial governments.

Rupee Debt and Sterling Debt. (e) One may regard the national debt from two points of view according as the funded debt is registered either in India or in England. The former is called the Rupee debt, it being subscribed in rupees and the interest being payable also in rupees. The latter, registered in England, is calculated in sterling and the interest on it is also payable in sterling. The whole amount of sterling debt is practically in the hands of English investors. The bulk of the rupee debt is held in India, but a portion is in the hands of investors who live in England and draw interest in that country. Of the rupee debt held in India a part is contributed by Indian investors and another by European investors.

The analysis of the figures of the Public Debt brings out two features, namely,—

Two characteristics of our Public Debt.

Preponderance of Productive over Unproductive debt.

(a) The Unproductive debt forms a small percentage, the larger constituent being the Productive public debt. And very few countries of the world enjoy such an enviable position. No doubt our unproductive debt increased, as noted already, on account of the war and its

aftermath. Even then the position is satisfactory.

- (b) The other feature is the preponderance of aliens in the list of public creditors. And the reason for this is not far to seek. The poverty of the people, their lack of saving habits and the shyness of the Indian capitalists are greatly responsible for this unsatisfactory condition.

Predominance of non-Indian creditors.

We may conclude this subject by appending a statement showing the interest-bearing obligations of the Government of India in the years 1932 and 1933.

| | 31st. March 1932. | 31st. March 1933. |
|---|-------------------|-------------------|
| Total Public Debt of India. | | |
| In India. | 706.4 crores. | 705.38 crores. |
| In England (calculated on the basis of 1s. 6d. to the rupee) | 506.45 .. | 507.10 .. |
| Total interest-bearing obligations. | 1212.85 .. | 1212.48 .. |

