## Iron and Steel

Imports from both the United Kingdom and the United States of America increased. Steel ingots arrived for the first time from Australia to a total value of Rs. 8.48 lakhs.

## Vehicles

Forty (nil) motor cars valued at Rs. 1.40 lakhs were received form the United Kingdom and 9,134 (5,176) cycles.[223]

## Instruments

Electric wires and cables from the United Kingdom increased to Rs. 14.48 (9.63 lakhs, telegraph and telephone instruments and apparatus to Rs. 5.15 (0.73) lakhs, electric bulbs to Rs.7.17 (2.74) lakhs, but Cinema, films, raw, dropped to Rs. 3.05 (6.11) lakhs.

## Chemicals

Import of Sodium Carbonate, Caustic Soda and Copper Sulphate from the United Kingdom rose to Rs. 22.07 (8.96), Rs.24.75 (14.81), and Rs.3.53 (2.38) lakhs respectively. Other chemicals from Canada increased to Rs. 21.20

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[223] *Indian Review,* Madras, 1945-46

(11.20) lakhs. Egypt, which supplied Rs. 3.74 lakhs worth of Copper Sulphate in the previous years, did not supply any this year.

**Liquors**

Brandy from the Union of South Africa and other spirits from the United Kingdom increased to Rs. 3.46 (2.16) lakhs and Rs.3.55 (1.16) lakhs respectively, but whisky from the United Kingdom fell to Rs. 2.43 (4.60).

**Grain, Pulses and flour**

The supply of wheat from Australia showed a sharp fall to Rs. 8.77 (363.98) lakhs for 4,019 (144.354) tons, and that of wheat flour decreased to Rs.9.10 (21.48) lakhs for 3,095 (7,859) tons. Shipment of wheat from South Africa was nil (3,852) tons. Canada increased her wheat exports to 11,646 (2,486) tons and the United States to 48,897 (2,570) tons. For the first time after the war, Burma shipped 15,731 tons for rice to this province.

**Cotton Piece goods**

From the United Kingdom, supplies of white piece goods fell to Rs.2.26 (4.17) lakhs of printed piece goods to Rs. 1.59 (10.79) lakhs and coloured piece goods to Rs.3.05 (16.77) lakhs[224].

**Foreign Trade - Exports**

The income in the total value of export was contributed to as follows

Increase

| | **1944-45 Rs. in Lakhs** | **1945-46 Rs. in Lakhs** |
|---|---|---|
| Leather | 303.37 | 505.41 |
| Raw cotton | Nil | 10.58 |
| Fruits and Vegetables | 430.14 | 633.08 |
| Coir manufacture | 187.65 | 292.16 |
| Fish | 187.73 | 231.52 |

(Source: Report on the Administration the Madras Presidency for the years 1944.45 _ 1945-46).

Decrease

| | 1944-45 Rs. in Lakhs | 1945-46 Rs. in Lakhs |
|---|---|---|
| Groundnut | 630.16 | 607.25 |
| Tea | 632.36 | 625.30 |
| Cotton Manufacture | 750.97 | 418.91 |

Source : Report on the Administration of the Madras Presidency for the years 1944-95-1945-46)

**Leather**

[224] G.O.Ms.No.1207, Trade dated 23rd March, 1947, TNA.

Shipment to the United Kingdom increased to Rs. 440.61 (233.51) lakhs.

**Raw cotton**

Exports to the United Kingdom and the United States of America amounted to Rs. 5.41 (nil) lakhs and Rs.5.17 (nil) lakhs respectively.

**Fruits and Vegetables**

Cashew kernels to the United States of America increased to Rs.526.87 (297.91) lakhs and onion to Ceylon to Rs.70.61 (58.02) lakhs.

**Coir manufacture**

The United Kingdom purchased Rs. 109.28 (97.87) lakhs and the United State Rs.98.01 (51.61) lakhs. For the first time after the war, Sweden, Norway, Denmark, France and Switzerland entered the market.

**Tobacco - Raw and Manufactured**

The United Kingdom increased her requirements of unmanufactured tobacco to Rs. 90.72 (31.98) lakhs, while Ceylon, imported beedies to the extent of Rs.40.56 (38.63) lakhs.

**Fish**

Ceylon was the sole consumer of dry salted and unsalted fish[225].

## Groundnut

Shipments to Egypt, Kenya colony and New Zealand were nil (140.84), nil (4.56) and nil (2.52) lakhs of rupees, respectively. South Africa, Australia and Canada reduced their requirements to Rs.46.12 (147.97) lakhs. The United Kingdom purchased Rs. 471.02 (311.74) lakhs, while France re-entered the market to the extent of Rs. 34.75 lakhs.

## Tea

The United Kingdom and Canada decreased their requirements to Rs. 434.51 (460.36) lakhs ad Rs.49.34 (51.90) lakhs, respectively.

## Cotton Manufacture

Exports of cotton twist and yarn fell to Rs. 18.81 (36.82) lakhs and those of cotton piece goods to Rs.360.38 (682.94) lakhs.

## Coastal trade

Imports decreased to Rs.29.67 (35.02) crores and exports to Rs.32.82 (33.51) crores. The total decreased to Rs.62.50 (68.54) crores. Trade with Bombay, Bengal and Sind amounted to 19.54 crores, Rs.24.56 crores and Rs. 10.83 crores, respectively [226]

[225] *Census of India,* 1957, Vol. XIV, Part I & II, pp. 207-210.

The aggregate value of the sea-borne trade of the Province increased to Rs. 170.65 crores as shown below during 1946-47.

| | Rs |
|---|---|
| Imports | 43.42 (24.34) crores |
| Exports | 63.47 (44.68) crores) |
| Coasting trade | 63.76 (62.5) crores |
| **Total** | **170.65** |

Government transactions declined from Rs.95.06 lakhs to Rs.56.87 lakhs[227].

**Foreign Trade – Imports**

The total value of foreign imports on private account increased to Rs.43.41 crores form Rs.24.34 crores. Transactions in important commodities are shown below.

| | 1945-46 Rs. in lakhs | 1946-47 Rs. in lakhs | Increase Rs. in lakhs | Decrease Rs. in lakhs |
|---|---|---|---|---|
| Grain, Pulses and flour | 191.85 | 1,382.51 | 1,190.66 | — |
| Machinery | 201.03 | 446.91 | 245.88 | |
| Manures | 57.6 | 142.33 | 84.57 | |
| Metals other than iron and steel | 38.43 | 148.91 | 110.45 | — |

[226] G.O.Ms. No. 1233, Trade, dated 9th January 1945, TNA.

[227] *Report of the Department of Industries and Commerce for the years 1945-46 & 1946-47,* pp. 119-121, pp. 123-125.

| | | | | |
|---|---|---|---|---|
| Paper and Paste Board | 35.04 | 112.24 | 77.20 | — |
| Cotton raw | -- | 112.16 | 112.16 | -- |
| Vehicles | 26.66 | 188.89 | 162.23 | — |
| Building, and an increasing materials | 39.90 | 5.20 | | 34.70 |
| Mineral oils | 1,219.40 | 515.98 | — | 703.42 |
| Tea chests | 30.77 | 20.99 | | 9.78 |

(Source : Report on the Administration of the Madras Presidency for the years 1945-46-1946-47).

### Grain, Pulses and Flour

Burma, Siam, Brazil and Java supplied paddy and rice. Canada, Australia and the United States of America supplied larger quantities of wheat and wheat flour. The Argentine Republic, Australia, Burma and the United States of America accounted for other grains and pulses.

### Machinery

Imports of all kinds of machinery increased, the increase being marked in the case of electrical machinery, textile machinery, metal working machinery, tea machinery, boilers, sewing and knitting machines and sugar machinery[228].

[228] G.O.Ms. No. 4620, Trade, dated 17th December 1946, TNA

### Manures

There were larger shipments of Sulphate of ammonia from the United Kingdom and of ammonium phosphates from Canada, Egypt sent Rs. 2.46 lakhs worth of Super phosphates.

### Metals other than Iron and Steel

The United Kingdom supplied Rs. 52.19 lakhs worth of brass (13.46) and Rs.22.83 lakhs of copper (8.96). Italy sent Rs.3.26 lakhs worth of quick silver.

### Paper and Paste Board

The chief suppliers of paper were Canada and Sweden. The United Kingdom dispatched writing paper to the extent of Rs. 13.76 lakhs (4.04).

### Cotton - Raw

This was received from Egypt.

### Vehicles

Thirty four thousand one hundred and twenty nine (9,134) cycles of the value of Rs.30.33 lakhs (6.85) 1016 motor cars (40) of the value of Rs.43.98 lakhs (1.40) were received from the United Kingdom. Four hundred and thirteen motor cars of the value of Rs. 17.30 lakhs were received from Canada. 133 cars valued at

Rs.6.29 lakhs from the United States of America and 75 of the value of 3.27 lakhs from France. There were no imports from these countries in the previous year. Motor cycles and omni buses were also received while none was received in the previous year[229].

**Building and Engineering Materials**

The United Kingdom, Egypt, Iran and Palestine curtailed their shipments of asphalt.

## Mineral Oil

Iran reduced its supplies in fuel oil and motor spirit but increased its shipments under kerosene oil.

## Tea Chests

There were no imports of metal tea chests during the year and there was a fall in the imports of wooden chests[230].

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[229] G.O.Ms.No.955, Trade, dated 4th March, 1946, TNA
[230] G.O.Ms. No. 2482, Trade, dated26th January, 1946, TNA.

## Foreign Trade - Exports

The total value of private merchandise increased from Rs.44.68 crores to Rs.63.47 crores. The chief articles, which accounted for increase. and decrease are shown below.

| | 1945-46 Rs. in lakhs | 1946-47 Rs. in lakhs | Increase Rs. in lakhs | Decrease Rs. in lakhs |
|---|---|---|---|---|
| Hides and skins Raw | 24.38 | 86.12 | 61.74 | ~ |
| Leather | 505.41 | 1,582.49 | 1,077.08 | ~ |
| Metals and Ores | 39.00 | 108.03 | 69.03 | ~ |
| Oil | 83.71 | 313.54 | 229.83 | |
| Coir raw and manufactured | 293.59 | 570.13 | 276.54 | ~ |
| Tobacco raw and manufactured | 169.03 | 583.78 | 414.75 | ~ |
| Rubber raw | 51.37 | 3.03 | | 48.34 |
| Seeds | 687.11 | 45.21 | ~ | 641.90 |
| Tea | 625.30 | 519.36 | | 103.94 |

(Source : Report on the Administration of the Madras Presidency for the year 1945-46-1946-47).

**Hides and Skins - raw**

There were large shipments to Australia and America. **Leather**

There were large exports to America, the United Kingdom, Burma, Belgium, Sweden, Switzerland, France and Denmark. The Netherlands also received supplies to a small extent through them did not get them in the previous year.

**Metals and Ores**

Manganese was exported in large quantities to America.

**Oil**

There were large exports of lemon grass oil and sandalwood oil. Burma, which made no demand on groundnut oil in the previous year, received an appreciable quantity during the year.

**Coir - Raw and Manufactured**

There were no exports of coir raw while the exports coir manufactured increased.

**Tobacco - Raw and manufactured**

The United Kingdom and Soviet Russia received a major share of the exports. Burma, which had no trade in besides in the previous year, received some supplies in the year[23125].

**Rubber Raw**

There was no demand from the United Kingdom and America which were the usual markets.

**Seeds**

There were no exports of groundnuts owing to restrictions imposed on them. The United States reduced her demand under Linseed and so did Ceylon in respect of Coriander of which she was the sole consumer[23226].

The war had shakened the pace of the tendency of the diversion of trade from Great Britain. Next to Great Britain, United States of America had become the biggest customer and on the import side also, she stood second only to England. The Madras State enjoyed favourable balance of trade both with the Empire and non - Empire countries and in both cases, there was an appreciable increase. It may be mentioned that as a result of war, the balance of payments had

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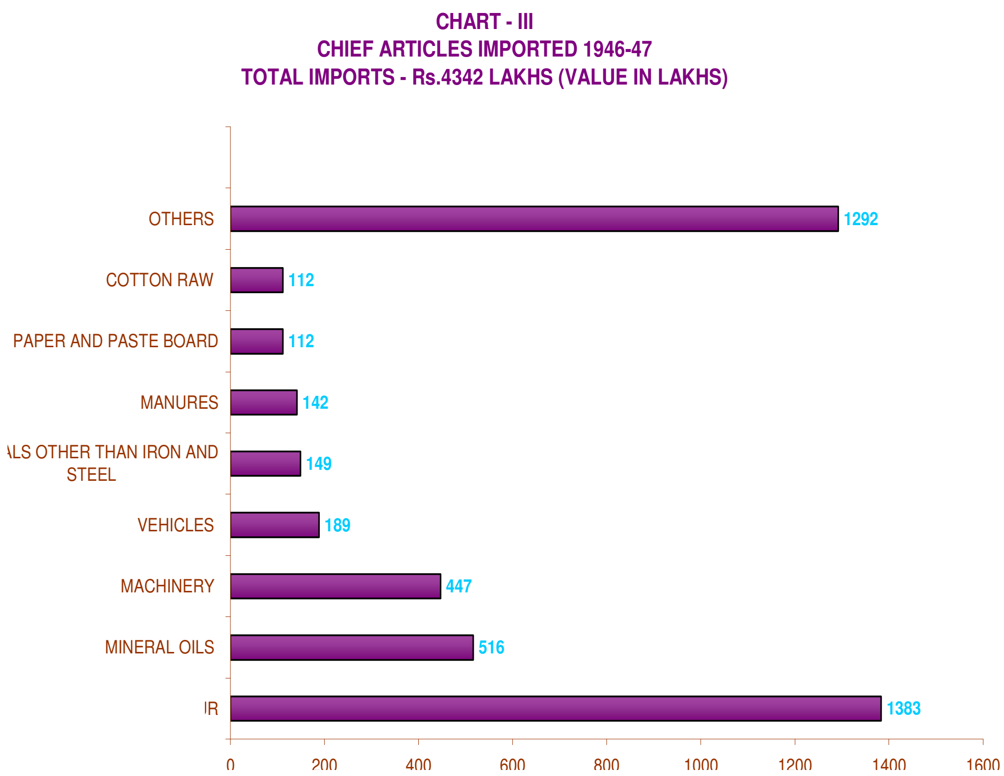
[231] *Proceedings of the Madras Chambers of Commerce, 1946-47,* pp. 203-205.
[232] *Annual Report of the Southern Chamber of Commerce,* 1946-47, pp.87-9\.

also become favourable to the Madras Presidency as well as India. This was due to the repatriation of our sterling debt and the commutation of sterling pension. Finally, it may be stated that in spite of favourable position in which Madras was placed in respect of foreign trade, the terms of trade i.e. the exchange of import for the exports were going against us.

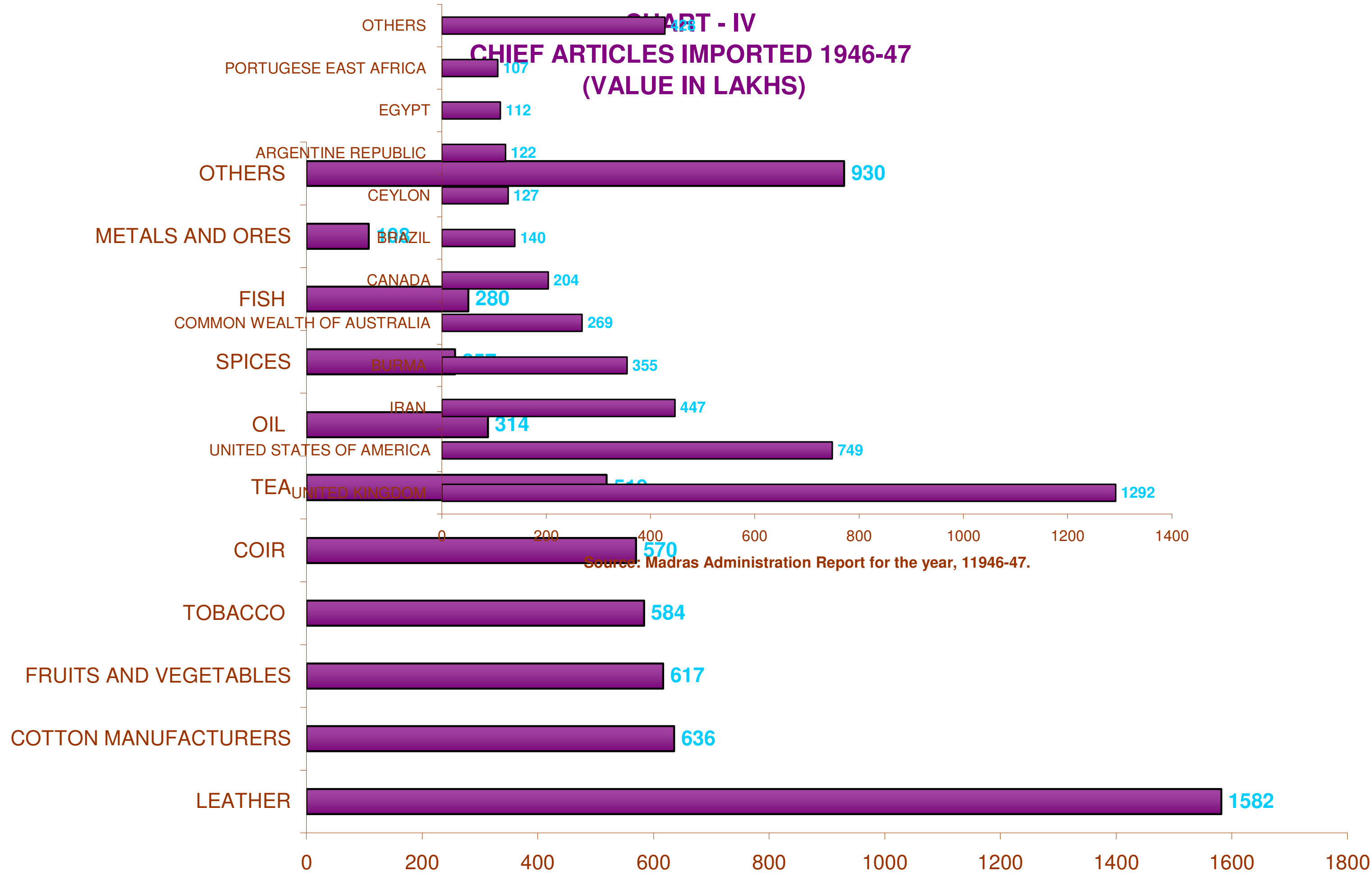
The conclusions from the above study are:

1. The favourable position of foreign trade (export trade) was at the expense of the domestic consumer and reacted on the internal price system unfavourably.
2. The fall in imports created shortage of many articles and this produced rise in the price level.
3. The favourable position indicated by changes in the composition was deceptive. It did not indicate further industrialization of the Presidency. On the contrary, the heavy reduction in the import of machinery shows that our capital equipment was seriously subjected to greater wear and tear and thus to greater depreciation; and
4. In spite of our favourable position, in regard to our export trade, the imports were growing costly in terms of our exports.




Source : Madras Administration Report for the year, 1946-47

CHART - II
TRADE OF THE PROVINCE BY COUNTRIES 1946-47 TOTAL IMPORTS -4,342 LAKHS (VALUE IN LAKHS)




Source : Madras Administration Report for the year, 1946-47

# CHAPTER – V

## Chamber of Commerce

The Madras Freight Association formed earlier merged again with the Chamber of Commerce to avoid redundancy. The mill owners of South India formed a separate Association in 1910. The chamber together with the Bombay Chamber addressed the London Chamber of Commerce to get a better voting strength for the Indian Chambers in the Empire Congress of the Chamber of Commerce, functioning from 1902. The basis suggested was the average value of external trade which was over £430 millions, exceeding the combined figures of any two colonies. It wanted the Empire Congress to discuss the methods of avoiding double taxation[1].

In 1918-19, a proposal to form an Associated Chamber of Commerce in India was mooted. Though the first attempt at concerted action by the Chambers was made in 1905, when a conference was held at Calcutta, no further steps were taken until 1917 when the second conference was held at Delhi to consider Indian Trade after the First World War. The need,

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[1] Thirumalai, C. - The Voice of Enterprises-150 years of Madras Chamber of Commerce and Industries, MacMillan India Ltd., Madras 1986, P. 131.

however, was felt for such a Federated Organisation from time to time. It was only January 1920, an Association was constituted for the promotion and protection of trade and commerce, industries and manufacturers of India and Ceylon. The immediate issues suggested for discussion therein were the levy of Excess profits duty and the post-war problems. The Madras Chamber intended to raise the labour unrest as well, as Madras was having quite a bit of it in 1919-20. A concerted approach by all the Chambers on this issue could help. The Associated Chambers of Commerce took shape and commenced function from 1920.[2]

Thereafter, questions of national policy and importance were considered more in the joint deliberations of the Associated Chambers of Commerce. The regional chambers were concentrating on problems of local and regional interest and brought up issues of common interest before the Associated Chambers of Commerce for collective deliberation and action. It was, however, the convention that only unanimously agreed the Associated Chambers of Commerce would project resolutions to the Government and when any constituent had strong views of its own, it could address the authorities concerned directly[3].

In 1920s and 1930s, protection for the infant industries in India was the cry of the nationalists and of the Indian industrialists. The Government appointed the Tariff

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[2] Ibid, p. 131

[3] Ibid

Board in 1923 to enquire into the claims for protection. It rejected several claims and even some recommended by it for protection, like cement (1928), glass (1931) and woolen goods were declined by the Government. The Chamber, too, held that neither imported cement nor imported paper could be charged enhanced duties to protect Indian Manufacturers. Between 1923 and 1939, eleven industries were granted specific protection -iron and steel, cotton, textiles, sericulture, paper, sugar, plywood and tea-chests, silver-thread and wire, magnesium chloride, salt, heavy chemicals and matches. The Indian industrialists characterized it as a halting policy of protection. Others attributed it to the Government's desire to help the British enterprises set up in these sectors.[4]

A conference of British Empire countries, called the Imperial Economic Conference was held in Ottawa in 1932. A lot of hope was pinned on this conference by the Indians. But the outcome of the conference caused only disappointment. Instead of giving concessions to its colonies, Britain tried to strike a businesses deal in furtherance of its own interests. At this conference, Great Britain declared which goods of each colony would be admitted free of duty and which British goods should be granted access to each empire country[5]. Canada, Austria and South Africa refused to give up any thing for the benefit of England. India alone

[4] Ibid, pp.181

[5] Rothermund .D., - *Global Impact of Great Depression,* pp.65.

was compelled to agree to give preferential treatment to British goods[6]. The Indian delegation was forced to conclude an agreement with the British representatives, giving preferences over non-empire manufacture exported to India. In return, the British guaranteed free entry for some Indian goods[7]. At current volumes and 1928-29 prices, Indian preferences on British goods were worth about $ 55 million while British preference on Indian goods were worth about $ 47 million.[8]

The South Indian Chamber of Commerce in the course of a lengthy communication to the Secretary of the Federation of Indian Chamber of Commerce and Industry said that the Ottawa agreement had tilted the scale against India. The Chamber complained that it was progressively subjecting India to helpless dependence on trade with United Kingdom.[9] The dominos and India hoped that currency policy would be fully discussed at the Ottawa Conference and that the British authorities would commit themselves to a definite policy to raise the prices of primary commodities. But the expectation was belied and the British Chancellor only expressed his wish to see world prices rise. Increased public works

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[6] Nehru, - *Glimpses of World History,* pp.906
[7] Tomlinson B.R., - *Political Economy of the Raj,* pp.136-137.
[8] Ibid
[9] Modern Review, 56, 1934, pp.367

expenditure was ruled out and emphasis was laid on the control of production to raise the price.[10]

The Ottawa Conference turned out to be a business deal to grant preference to some special British commodities, as the gain accrued to India was small.

The Ottawa agreement came up for renewal in 1936. By then the Congress had lifted its boycott of legislature programme. The entry of Congressmen into the Legislative Assembly led to increasing attack on the Ottawa agreement.[11] A resolution for its rejection was carried in the Legislative Assembly by sixty-six votes to fifty eight on 26th January 1935, Though this did not affect the validity of the Ottawa agreement, since the viceroy could ratify it through his Certificate procedure, it was indicative of the attitude of the Congress Party to the imperial trade policy of the Government of India.[12]

The Madras Chamber declared in 1921 that "very ancient but still existing grievance- the vexed question of the provincial contracts" should be "fought in a last battle to secure full financial success". It supported a resolution in the Madras Council, agreed to take a deputation to the Viceroy and urged all the mofussil

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[10] Tomlinson B.R., - *Political Economy of the Raj ,* 1914 – 1947.
[11] Rothermund D., - Op.cit., pp.151
[12] Anstey .V., - *Economic Development of India ,* pp.488

Chambers, the Southern India Chamber of Commerce, the Traders' Association, the Madras Skins and Hides Merchants' Association, the Ryotwari Landholders' Association and even the political organisations like the National Home Rule League, the South Indian Liberal Federation and the Dravidian Association that they send a telegram to the Viceroy so that the voice of Madras could be heard by the Government of India. This veritable campaign mounted in 1921, enlisting the support of all the sections of the Indian opinion did not yield the result.[13]

In 1922, a joint delegation of the Associated Chambers of Commerce met the Viceroy to urge retrenchment and economy in the Government of India, consistent with efficiency and ultimately to lighten the grievous burden under which Madras was labouring. The Chamber stated in the Associated Chambers of Commerce meeting in 1926 that it would give priority to the withdrawal of the Provincial Contribution over the abolition of Super-tax. It pointed out the iniquity of the Government of India demanding a provincial contribution from Madras when the Province of Bengal was exempted there from in 1927. The inadequacy of the Central allocation to the Madras Province and the discrimination against this province were persistent complaints the Chamber made, urging their remedy, which was slow to arrive.[14]

[13] Ibid, pp.182
[14] Thirumalai C., - Op Cit.,pp.183

## Provincial taxation

With Provincial autonomy coming into force and the introduction of prohibition, the Congress Government introduced legislation to levy a number of taxes; The Madras General Sales Tax Act, The Tobacco Tax Act, Entertainment Tax Act and The Madras Sale of Motor Spirit Taxation Act, with the expansion of road transport, increase in the motor vehicles taxation was also contemplated.[15]

The Chamber was particularly agitated over the legality of the Madras General Sales Tax with reference to the Government of India Act, 1935 and petitioned the Governor- General to make a reference to the Federal Court but it was rejected. In particular, it was concerned with the levy of Sales Tax on the first sale and the last sales destined for exports. It urged the imperial Parliament to define the legislative powers of the Centre and the Provinces more clearly. At the same time, it raised a number of points of details with the Provincial Government. It raised the question of the constitutional tenability of The Madras Tobacco Taxation Act but the Government of India declined to make a reference to the Federal Court. It enlisted the participation of the European Associations (the Trades, the UPASI and the mofussil) and also the Southern India Chamber of Commerce and other Indian bodies in questioning the constitutional tenability and the taxation affected

[15] Ibid, pp.183, *PMLC-66*, 1937, pp.43-45.

trade and commerce as a whole. The General Sales Tax Act came into force in 1939. In 1940-41, the rate was reduced to ¼ % from ½ %. A commercial taxes sub-committee critically examined every provision, rule and procedure and advised the members of the Chamber on all aspects of the new law. When the Act was proposed to be applied to import sales the incidence falling on the purchaser, the Chamber opposed it. The Chamber carried on a campaign to reduce the rates of taxation and bring about uniformity in the rates of taxes.[16]

**Stamp duty**

It was persistently seeking (1926, 1930 and 1931) a reduction in the duty on Usance Bills (Hundis), which was too high and restrictive. In 1931, the Chamber was categorical that there was no evasion of stamp duty in Madras and the loss of revenue was negligible. In 1937, it agreed with the Reserve Bank of India's recommendation that the duty on inland usury hills of less than one year's usance should be drastically reduced. The Chamber was not for its abolition as a stamped paper was held to carry title. It was for continuing the unified stamps for both postage and revenue purposes.[17]

[16] Ibid, pp.184, *PMLC,66*, 1939 and 1940-41, pp.35-36 & 47-49.
[17] Ibid, pp.185, *PMLC,66,* 1931, pp.35-36

The Chamber's efforts predictably, were directed to containing the level of taxation at the minimum levels and seeking exemption from Local taxation for the smaller constituents. While the municipalities could freely tax the firms, even iniquitous levies could not be gone into, by any independent judicial body, as appeals against the assessment lay only to the Council, which assessed them. The Provincial Government was contemplating a legislative remedy in 1921. The Chamber enlisted the support of the Southern India Chamber of Commerce and the Trades Association as well and jointly discussed with them the objectionable features of a Bill to levy companies' tax on the basis of the business turnover of a company in 1924. It objected to all the inclusive definition of 'turnover' contemplated and the Local and Municipal Advisory Committee accepted its protest.[18] In 1929, the Chairman gave notice of a motion to abolish the Companies Tax and the Profession Tax or alternatively to limit the taxation to a business tax. In 1934, again, it opposed the increase in the municipal levies on companies.

In 1940, the Central Assembly provided for continuing the right of the Provincial Governments to impose Professional Tax, subject to a limit of Rs.50/- when the tax was imposed after the date of that Act. The Chamber urged that the limit should

[18] Ibid, pp.186, *PMLC,66*, 1924, pp.34-36.

apply to the earlier enactments of Madras where the maximum for Profession Tax for the city was Rs. 10,000- and in the mofussil Rs.550 in a year. The Madras Government rejected the Proposal. But in 1941, Frederick James was able to get a legislation passed in the Central Legislature to apply the limit to the existing local taxation. In 1946, a further amendment was made in the Profession Tax Limitation Act to clarify that the Madras City Municipality Tax would not come within the limit of Rs.50-. The Chamber rather morosely recorded: "Now we must continue to pay this iniquitous tax with no possible doubt whatever, we would continue to object".[19]

The Chamber agreed in 1939 with the Madras Corporation that the annual election to the 15 divisional seats by rotation might be replaced by a simultaneous election to all the 45 divisions once in three years. Accordingly, the necessary legislation was put through.[20]

The Government appointed in 1921 the Indian Fiscal Commission with Ibrahim Rahimtulla as the Chairman and J.K. Keynes, the Economist as the Vice-Chairman.[21]

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[19] Ibid, pp.187, PMLC,66, 1950, pp.35-37.
[20] Ibid, pp.188, PMLC 66, 1939, pp.37-39.
[21] The Indian Fiscal Commission, 1921.
See also: Jon E., War Time Development in Indian Currency-Post-War, Development and Lessons of War-time Developments in Indian Economy, M.Litt-Thesis, 1989, University of Madras.

The Chamber made several suggestions to the Commission to be considered in evolving a fiscal policy. It favoured a policy of free trade, but had no objection to the imposition of customs duties for the purpose of obtaining revenue. A tariff system was a more suitable form of taxation for Indian than direct taxation, which was unpopular and sometimes evaded and beset, frequently, with difficulties of collection. The Chamber, to repeat, had changed its preference for direct taxes. The existing tariff policy did not hinder but helped the Indian Industries to flourish greatly and as such it might be continued. The Chamber would agree to some latitude to the strict theory of the Free Trade Policy that a tariff imposed should call for an excise duty on the same article of Indian manufacture. The excise duty should be imposed for revenue purposes only. The object of fostering Indian industries should be a secondary consideration. For the purpose of developing Indian industries, temporary protective duties on some imported manufacture could be imposed but certainly not on all imports, for protraction might lead to quasi-monopoly.[22]

For developing Indian industries, an increase in prices to the Indian consumers would be justifiable. This might lead to a cost-push and increase the cost of living, which could not be fully compensated by the rise in wages or salary. No duties,

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[22] Annual Review of Trade of India (Publications – 1929-1946) published by the Governor – General in Council.

however, on import or export could be imposed without raising the price to the ultimate consumer and the rise in price would be as permanent and as much as the duty. If the export offered a more attractive price than the home market, the producer should be allowed to produce for exports. If an export duty was levied on foodstuffs, their exports could be controlled but there was the danger of the agriculturists going in for commercial; crops to get better prices. The economic philosophy of the chamber was, as usual, a mix of Free Trade and Protectionism and it was, as every, pragmatic in its approach[23].

In the wake of economic crisis, the first positive action of the Government of Madras was appointment of a committee of officials and non - officials to conduct an enquiry. On 16th January 1931[24], the Madras Oil seeds and Ryotwari Association called on the Governor, to represent to him the depressed condition of the groundnut trade. In response, the Government decided to form a committee of officials and non-officials to examine whether some system of co-operative marketing of the Madras groundnut crop could be devised and organized. At the same time, the Government also wanted to know how far the economic conditions of the agriculturists of the Presidency had been affected by the fall of agriculture prices. It decided-in-suppression of the earlier decision - to appoint an Economic Depression

[23] Ibid

[24] *The Hindu,* Madras, dated 17th January, 1931

Enquiry Committee, to probe into the effects of the Depression and to report whether any measures should be adopted by the Government to mitigate them[25].

The government, however, had to yield to the rice lobby. In 1935, import duty was imposed on broken rice, as it was a major item in the import bill[26]. But the import duty did not have much impact. The Special Officer, Sathyanathan himself had to admit this frankly in his report - "the recent levy of a small import duty on broken rice will undoubtedly afford much relief; but it may not be high enough or comprehensive enough, I submit, to prevent paddy, whole rice and even broken rice form being imported in sufficient quantity to depress local prices seriously[27].

The Japanese piece goods flooded to the Indian market and depressed the Indian Cotton Industry. When the situation became worse, the Government imposed high duties on these imports. In 1930-31, the duty on cotton piece goods was raised form 11 percent to 15 percent, with an additional 5 percent on non - British goods and the supplementary budget imposed a surcharge of 25 percent of these rates[28]. Japan was the largest single consumer of all varieties of Indian cotton. When import duties were raised, it embarked on a boycott of Indian cotton as a retaliatory measure. As a result, the Government of India was forced to sign a trade agreement with

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[25] G.O.No.328, Revenue (Confidential), dated 11th February, 1931, TNA
[26] Rothermund D., - *British Foreign Trade Policy in India,* pp.3-4.
[27] Sathyanathan, SS – *Rural Co-operation in Madras Indian Journal of Economics,* 1941-42,pp.22
[28] Thomas P.J., - *Growth of Federal Finance in India,* pp.366.

Japan in 1934. The Anglo - Japanese agreement of 1934 permitted the Japanese to sell 325 million yards of cotton cloth annually to India, if they bought 1 million bales (one bale is five hundred pounds of cotton) of Indian raw cotton[29]. Japan could skillfully increase her export of textiles by increasing her consumption of raw cotton while the agreement was in force (1935-37). The competition of Japanese textiles with Indian Textiles therefore called for the revision of first agreement in 1937. This time, the quota of Japanese exports of textiles was reduced from 325 million yards to 283 million yards and her import of Indian raw cotton was fixed at 1.5 million bales.[30]

**Government's Remedial Measures**

The Government of Madras, relying on the reports of the District Collectors, initially did not take any serious view of the Depression. The Secretary in the Department of Commerce of the Government of India addressed a letter to the Chief Secretary to the Madras Government on 2nd August 1930[31], calling for a report on the economic condition of the Presidency in the wake of the fall in prices.

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[29] Rothermund D., - *British Foreign Trade Policy in India,* during the Great Depression, 1919 to 1939, pp.9-12.

[30] Ponniah J.S., - *The Production and Marketing of Raw Cotton in the Madras Presidency with special reference to the Districts of Bellary, Kurnool, Coimbatore, Madura, Ramnad and Tinnevelly,* D.Litt., Diss, University of Madras, 1944, 2:87

[31] *The Hindu,* Madras, dated 3rd August 1930.

The government of Madras called for reports from District Collectors. On the basis of their reports, it wrote to the Government of India, stating that "the reports received from the Collectors of districts and the Director of Agriculture do not indicate that there is any ground for apprehending anything like a serious economic crisis in this Presidency owing to the fall in prices" (The report further state that, "the case with which the land revenue had been called, in spite of sharp decline of prices, suggests that the ryots have so far not been seriously hit by the low prices)[32].

The Government of India decided to appoint a Retrenchment Committee to suggest means of economy in public expenditure.[33] In line with the Government, of India, the Madras Government also appointed a Retrenchment Committee in Madras 1931, under the Chairmanship of the finance member of the Government of Madras, H.G. Stokes, I.C.S, with K.Kuppuswami Chowdary, Raja of Bobbli. Mahmud, Raja of Calicut, S. Ellappa Chettiar, F.F. James, T.M Narayanswami Pillai, T.S Ramaswami Ayyar, N. Sivaraj and C.S Rathnasabapathi Mudaliar as members. All the members were legislators. But the Government chose to appoint only nominated members and close associates of the Justice Ministry. G.R.F

[32] *Proceedings of Board of Revenue,* No.3315 (Mis), 10th November 1930.
[33] *Indian Annual Report,* 1931, Vol – I, pp.152

Tottenham was appointed Secretary to the Committee. Thus the Retrenchment Committee was virtually a Committee of the Government[34].

The appointment of a Committee came under severe criticism. The Tamil Nadu wrote: "we are glad at the Government taking such an interest in the matter. But no one can deny that when a person asks for water when he is about to die, it is foolishness to offer it to him only after a committee has been appointed and it has made enquiry. Committees should, of course, be appointed for matters, which need them. But when an emergency arises, action has to be taken to suit it also".[35]

The composition of the Committee caused misgivings about the probable outcome of the enquiry. Referring to the Committee, the Andhra Patrika observed, "No good will result from such a Committee as it will depend on the statistics furnished by Hood (the Collector of Madras) and not upon the evidence gathered from those who are directly affected by the economic crisis. It will be no wonder if this should prove useless as all other committees"[36]. Paradoxically, even the recommendations made by such a pro-government committee were unacceptable to the colonial government.

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[34] Report, Madras Retrenchment Committee, pp.74
[35] The Tamil Nadu, Madras, dated 19th February 1931, NNR.
[36] The Andra Patrika, Madras, dated 20th February 1931, NNR.

However, the orders of the Government on the recommendations of the Economic Depression Enquiry Committee were disappointing[37] the Government used this as an alibi and relegated the recommendation to the dustbin. The Government of India, for its part, was promoted to take this initiative by one curious factors[38]. Though the Civil Disobedience Movement had been officially called of, the agitation had not died down till 1934.

In a press communique, the Secretary of the Retrenchment Committee, G.R.F. Tottenham said, "Apart from the imposition of new taxation, a matter in which the field open the Local Government is limited, the only further possibility of securing the necessary savings is by making an emergency cut in salaries[39]. At the time, when the cut was introduced, it was definitely needs of the exceptional emergency. The Government order on the 10 percent salary cut said that, "the cut would be removed as a first measure of relief as soon as financial conditions improved, and there was no intention that it should remain in operation after the 31st March 1933"[40]. Addressing the scheme of retrenchment in the Legislative Council, the Governor said: "in order to assist the country, a cut has been foreshadowed in the

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37 The Hindu, Madras, dated 2nd March 1932.
38 The Hindu, Madras, dated 2nd March 1932.
39 G.O. Ms. No.4043, Land Revenue and Settlement Department, dated 16th December, 1931, NAI.
40 Ibid

pay of the services.... The Hon'ble Chief Justice and the Judge of the High Court have also agreed to a voluntary cut"[41].

The Retrenchment Committee made a series of recommendations, based on which the Government started issuing orders. On the grounds of financial stringency, the Retrenchment Committee recommended that a cut from 10 percent to 15 percent should be applied to all fixed traveling allowances. The Government directed that all fixed traveling allowances be reduced by 12.5 percent[42]. The Committee recommended an immediate cut in all compensatory allowances, including those granted to officers of All India Service stationed at Madras. The Government ordered at 31.25 percent on all allowances above Rs. 50, a 25 percent on all allowances above Rs. 20 but below Rs. 50 and a cut of 12.5 percent on allowances below Rs. 20[43]. The Committee also suggested that conferences and Committees be curtailed as far as possible and the government implemented the recommendation[44].

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[41] Proceedings of the Madras Legislative Council, 1991, pp.13
[42] G.O.Ms.No.631, Finance Department, dated 6th October, 1931, NAI.
[43] G.O.Ms.No.612, Finance Department, dated 29th September, 1931, NAI.
[44] G.O.Ms.No.687, Finance Department, dated 23rd October, 1931, NAI.

The Government in accordance with the recommendation of the Committee directed that all heads of department and their subordinates to make considerable reduction in the cost of printing by reducing the size of their departmental administration reports and the statistical tables attached to them[45]. The indenting officers of departments were instructed to restrict their requirements under stores to absolute minimum[46]. The government accepted the recommendation of the Committee that expenditure under charges for electricity should be reduced as much as Possible Avenue of economy[47]. The use of cheaper materials in the construction of Government buildings, as recommended by the Committee, was also accepted[48].

The recommendations of the Committee concerning the Department of Education were the closure of certain colleges or discontinuation of affiliation to certain subjects or reduction of the status of the staff employed. In the Madras Presidency College, the Philosophy and Sanskrit Departments were wound up. A 5 percent cut was made in all teaching grants during 1931-32. The special grant of Rs.15 million for the improvement of pay of trained teachers in aided elementary schools was withdrawn. The grant to Boys Scouts and Girl Guides Associations was reduced

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[45] G.O.Ms.No.2462, Public Health Department, dated 29th November, 1932, NAI.
[46] G.O.Ms.No.3232, Public Works and Labour Department dated 22nd December 1932, NAI.
[47] Ibid
[48] G.O.Ms.No.1769, Public Works and Labour Department, dated 22nd August, 1932, NAI.

by 25 per cent[49]. The Committee recommended that all Government grants for medical inspection in secondary and elementary schools, a schemes that had been made compulsory education areas, should be suspended until more prosperous times return. The Committee considered the proposals made by the Director of Public instruction for the abolition of scholarships. The Government not only accepted their recommendation but also granted no new scholarships during 1931-32[50].

On the revenue side, the Committee made various recommendations for the enhancement of fees in Government Arts and Professional Colleges. It accepted the proposal of the director that a registration fee of five rupees should be collected from each student admitted in the Presidency College and three rupees in other Government-run colleges[51]. The Government implemented the recommendation. The retrenchment in the Department of Education was massive and Sami Venkatachalam Chetty complained in the Council that, "the Education Department is practically reduced to its former position probably earlier than 1920 or 1921. By one method or other, the Finance Member is so clever as to introduce the Minister

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49 Report, Madras Retrenchment Committee, pp.123
50 Ibid.
51 Ibid.

to fall in line with his proposals, so much so that a good deal of Education budget is cut away"[52].

The Government dispensed with the officially financed propaganda against drinks and drugs carried on by the Central Propaganda Board, temperance publicity Committees and the District Propaganda Committees.[53] Provision of funds for the maintenance of roads and buildings was reduced to even below the minimum required for efficient up-keep. No new works were undertaken in the department.[54] There was reduction in the strength of menial staff in the Labour Department. District Labour Officers of the grade of Tahsildars replaced officers of Deputy Tahsildars. Grants in aid to societies and institutions working for the uplift of the depressed classes were reduced. The industrial centres in Madurai, Ramanathapuram and Thanjavur Districts remained closed. The grant of land to Kallars was dispensed with. New building and repair works were kept in abeyance[55].

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[52] PMLC, 69, 1934, pp.173
[53] G.O.No.1583, Public Health Department, dated on 28th August, 1931, NAI.
[54] G.O.Mas.No.44, Finance Department, dated 28th January, 1933, NAI.
[55] *History of Higher Education in South India*, The University of Madras (1857-1957), Madras, 1957,pp.126

The Corporation of Madras followed the principle of equity while imposing pay cuts. The number of meetings of the Academic Council and the Boards of Study was reduced. On the grounds of financial stringency, the opening of new branches of research was deferred[56].

The net effect of retrenchment measures was that in the revised estimate for the year 1931-32, the Government was able to show a saving of Rs.l 1.27 million under the expenditure.[57]

## Criticism

When the whole world was reeling under acute financial depression of an unprecended nature, the Madras Government's budget was at surplus. The retrenchment policy of the Government enabled it to maintain budgetary equilibrium. But it led to reduction in Government spending on development activities. The Government's drastic cut in their capital expenditure reduced the century's purchasing power.[58] The retrenchment hit the department of Public Work most severely. The Hindu wrote: "the retrenchment policy of the Madras Government had caused quite a sensation among the members of the District

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[56] Ibid
[57] G.O.Ms.No.15, Finance Department, dated 12th January, 1932, TNA
[58] Thomas P.J., - Op.Cit.,pp.363

Educational Councils and the Managers of aided elementary schools in the Presidency."[59]

After the First World War, when a readjustment of production lines had been completed in the western countries, the demand for the primary commodities from Madras rose. Exports increased and the terms of trade moved in favour of the Province with treasure in unprecedented volume combining in between 1920 and 1930. The Depression thereafter affected the primary produce exporters. Prices fell, though the volume was expanding Modestly. The terms of trade drifted against Madras.

In the thirties, the Central European countries like Germany were closing in their commercial channels and Japan was getting into the "Empire" countries like Ceylon, displacing Indian piece-good exports. The Government of India was invited to the Ottawa Conference to consider tariff arrangements embodying a reciprocal preference regime for the mutual benefit of the participants from the Empire. The Indian nationalist opinion was opposed to any Imperial Preference, as it felt India would have to give more than what it received.[60]

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[59] The Hindu, Madras dated 6th March, 1932.
[60] Thirumalai C., - Op.Cit.,pp.175.

The Madras Chamber, too, apprehended the possibility of the Import Duties Act of 1932 of the United Kingdom being applied to India's exports to the United Kingdom, to the disadvantage of India, which could be one of the side effects of the protectionist policy of India followed from 1923 onwards. The Ottawa Conference agreed that India might increase her import duty on a large number of goods in manufactured or produced outside the British Empire. The Madras Chamber favoured the agreement. The Imperial Legislative Assembly ratified it. But the Ottawa Agreement had not been effective in getting favourable treatment for Indian products the "Kailies" in Ceylon, despite India's import of Copra and Coconut oil and products from Ceylon. The Chamber left this issue in the hands of the Associated Chamber of Commerce.[61]

In 1936, the Indian Chamber of Commerce made a strong case for discontinuing the Ottawa Agreement. The Central Legislative Assembly refused to continue the Agreement on its termination. India concluded a new Trade Agreement with the United Kingdom in 1939. This, too, preserved India's privileged position as an exporter to Britain but considerably narrowed the scope of preference granted to imports.

[61] Ibid, pp.176

The Chamber had, however, no misgivings on the continued utility of the Ottawa Agreement as the basis for negotiating a new treaty for trade within the Empire. It analysed the prospects of each commodity and urged a higher rate of preference where necessary, as for example, oils and oilseed and Indian cigars. It also quoted the British Government's recognition the India's fiscal policy should be largely determined by (i) the protection deemed necessary for developing her own industries and (ii) the exigencies of the revenues of the Government of India. The new agreement in the long run, proved to be of great advantage especially after the Second World War.[62]

An impressive favourable movement in the terms of trade, associated with the post-war boom and the release of the Sterling balances built up during the War was accompanied by a steep rise in imports in the late 1940s.[63]

An Export Advisory Council was set up in 1940 and the Madras Chamber had two European nominees in addition to a Government nominee, Kumararaja, M.A. Muthiah Chettiar (who was an individual member of the Chamber till his demise in 1984). In 1946, it pointed out that the Government of India should

[62] Ibid, pp.177
[63] Ibid, pp.178.

decide what quantities of each commodity could be the exportable surplus so that free export could be allowed within that limit. It felt the export trade, as for example, leather, was unduly and unnecessarily distorted by controls. Even otherwise vexatious delays had discouraged the export trade. It supported the proposal for an association of exporters to check on the quality of the products to be exported, but doubted if it could be effective. That could not check an unscrupulous exporter but might hamper and honest merchant unless the Association was empowered by the Government to demand a banker's guarantee that every exporter would pay any claim upheld in arbitration. It felt, at the same time, any such restriction would be, on the whole, counter- productive. It would rather leave it to the customers to accept the exported product, even at the risk of a possible temporary reduction of the exporters.[64]

**Industrial policy**

The Government of India Act of 1919 had made industries a provincial subject.[65] Thereafter the government lost direct interest in industrial development and the provinces had neither the financial nor the technical resources to stimulate development on any significant scale. Under the Government Act of 1935, the development of industries was still a provincial subject[66]. But it was open to

[64] Ibid, pp.179.
[65] Government of India Act, 1919.
[66] Government of India Act, 1935.

the center to declare Central control and was expedient in the public interest. Thereupon, the development of such industries would become a Central subject. However, the Central Legislature with the result had in fact passed no such Act that the development of industries remained a wholly provincial subject. In 1945, the Government of India felt that the continuance of their existing policy would not help India meet the objectives of post war development. In other countries, technical advances had been immense with a striking increase in the total volume of skilled labour.[67]

JP India was to make a rapid headway and if the standard of living of the masses had to be effectively raised a vigorous and sustained effort was necessary in which the state no less than private industry had to take a part.

In India, ordinance factories, public utilities and railways formed a considerable proportion of the total industrial enterprise, which was already largely state-owned, and state operated. Further it was decided that the bulk generation of electric power would, as far as possible, be a state concern. Besides, basic industries of national importance would be nationalized provided adequate private capital was not functioning and it was regarded as

[67] G.O.No. 2785, Development Department, dated 17th July, 1945-NAI.

essential in the national interest to promote such industries. For the purpose of government policy basic industries could be defined as aircraft, automobiles and tractors, chemicals and dyes, iron and steel, prime movers, transport vehicles, electrical machinery, machine tools, electro chemicals and non ferrous metal industries. All other industries would be left to private enterprise under varying degrees of control. There was to be no control except such as was required to ensure fair conditions for labour in the case of such industries[68].

The government of India had also come to the conclusion that they must take power to license industrial undertakings. They had then no power except for emergency war time controls, to regulate the growth of industry. One effect of this unregulated freedom to promote industrial enterprise had been the concentration of industry in certain areas. Further there was a tendency for entrepreneurs to go in for schemes, which promised quick returns leading to lopsided development, a scrabble for some industries with the danger of over production and excessive competition and inadequate attention to other industries which were equally necessary in the national interest. To overcome this difficulty, the government felt it

[68] *Post-War Development- Government of India's statement on Industrial Policy*: Annual statements of the Sea and Airborne Trade of India- Published by the Director General of Commerce and Intelligence, 1920-1947.

necessary to fix targets, to allocate them on a regional basis and to see that these targets were achieved. As government had no authority then to do all this, it was proposed to take power to license the starting of new factories, the expansion of existing factories, for without this power, planned industrial development would be impossible. At the same time in order to avoid unnecessary delays it was proposed to set a monetary limit to the plants or projects requiring licence so that very small plants moderate extension of existing plants or replacements, which do not add to output, would not be subject to licensing. It was realized that the administration of the licensing system must be such as to assure Indian states that their legitimate desire for industrial development was not overlooked. It was accordingly proposed that a Board should be constituted at a higher level to advise the Central Government in the matter of granting licenses for specified industries.[69]

Reacting to the Government of India's Statement on industrial policy, the Madras Government felt that India was moving towards the Central Government exercising unified control over matters of wide and vital concern to Provinces which was an anomaly considering the federal structure the existing constitution. Emphasizing that industry could not be built piecemeal, the Madras Government made it clear that the function of the Centre was more properly coordination than

[69] Ibid.

direction in respect of subjects which had been accepted as falling within provincial competence.

The Madras Government, therefore, preferred the formation of an All India Board of Industry to which the Central and Provincial Governments were represented at a high level and the decisions in the framing of which they had their share. The mechanisms of such a Board of Industries would fit both into the present constitution and a future federal constitution[70].

The Government of Madras hoped that this organisation commended itself to the Government of India. If, however, the Central Government did not agree then, the Madras Government laid down that in all the industries, which affected the Province, and to the extent that they affected, the centre and financial interest of the Province would be on a par with that of the Central Government. The Provincial Government felt that there was practical agreement between the policy of the Government of Madras and the views expressed by the Government of India.[71]

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[70] G.O.No.2785, Development Department, dated 17th July, 1945, TNA.
[71] Letter from the Development Department, Madras to the Secretary to the Government of India, Department of Planning and Development, dated 27th July, 1945.

However, while the Government of Madras welcomed the re-iteration that central control could give industrially backward provinces a preference over others through the machinery of licensing, no serious attempts was being made to determine in what form and how the broad objectives of regionalization could best be achieved in practice[72].

In regard to the promotion of new industries in this Province, this Government considered that they would be fully justified while issuing licenses to company promoters in stipulating that they should in the allocation of shares, give preference to subscribers of capital in the province. Such stipulation would not be unfair to the companies for it leaves the door open to them to allocate shares upto any amount which they have not been able to raise locally to persons outside the province. It is not the intention that any restriction should be placed on the freedom of the public to buy and sell shares after they been allotted.[73]

We do not have the reactions of the public to Government's statement on Industrial Policy but an extract from the journal 'Eastern Economist' (which the

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[72] Ibid.
[73] Letter from the Development Department, Madras to the Secretary to the Government of India, dated 28th July 1945.

provincial government had deemed important enough to be filed). Could be taken as some sort of representative opinion of the private sector. Commenting on the objectives of industrial development as spelt out by the Government's press communique, the journal said: 'The country has heard all this before and if it is not impressed by these new declarations and affirmations, it is because this Government when it had the chance of a generation had miserably failed to avail itself of it. If a gigantic and totalitarian war requiring every ounce of resource for the purpose, defence and attack has failed to carry India towards, what is the hope that anything tangible will be achieved so long as the same regime continues to be in the saddle?"[74]

On controls, the article argued that controls were essential but should be the very minimum required and that they should be informed by adequate knowledge and administered by men with an average degree of honesty. "It is no condemnation of the Government's enunciation of the principle of control to say that the public have no confidence in the present machinery of control which has been singularly incompetent and restrictive development. The objectives of control have been set down in too vague and general terms; one would like to know the methods which

[74] H.N.Mitra, *Indian Annual Register*, Calcutta, 1946.

would be adopted to secure balanced investment in industry, agriculture and social services. Apparently they have not been worked out".[75]

In 1949 the Government was still taking of the procedure to be adopted for Government assistance to intending industrialists. There had been no response to the communique issued by the Provincial Government in August 1944. Subsequently the Provincial Post-War Reconstruction Committee with sub-committees to deal with specific groups of Industries was constituted as a subsidiary body formed out of the post war reconstruction general committee. The sub committees and the general committee had examined the possibilities of starting various industries in the frovince. But as always, action and operationalisation of the recommendations eluded the political system[76].

[75] Annual Report of the Government of India, 1944-45.
[76] Annual Reports of the Director of Industries and Commerce Government of Madras, Madras, 1947.

# CONCLUSION

India in the pre-colonial period had a stable economy. Self-sufficient agriculture, flourishing trade and rich handicraft industries were some of the features of the Indian economy. India enjoyed extensive trade both within the country and with other countries. A balance of imports and exports was maintained

India towards the $18^{th}$ century was undoubtedly one of the main centers of world trade and industry. This status was completely destroyed under Colonial times. The western writers have made two points clear regarding the impact of British rule over India. First, on the eve of colonial expansion, the British found highly underdeveloped India with productivity in agriculture, very low per capita income and absence of any developed technology or tools for manufacturing. The benevolent policies of the British helped in the establishment of political unity, a system of governance and it had the foundations of economic development in India.

As against the modem viewpoint, the Indian nationalist scholars representing the nationalist perspective highlighted two important aspects of the British Colonial rule over India-'drain-theory' and 'de-industrialization'. The industrialization of England was accompanied by the decline and destruction of Indian industries. As a result, India witnessed a steady decline in population dependent on indigenous industries and consequent over-burdening of agriculture. This was partly due to the competition of cheap goods produced by machinery and partly due to the unwillingness of Government of the company to protect or encourage trade and crafts. So, by the first half of the 19th century, India lost the proud position of supremacy in the trade and industry of the world which she had been occupying for well over two thousand years and was gradually transformed into a plantation for production of raw materials and a dumping ground for cheap manufactured. goods from the west.

The First World War led to great dislocation in the economic life of the nation. Production had suffered by industrial organization being diverted to the purposes of war. The war brought about disruption of normal international trade channels because of the fact that countries involved in war directed much of their natural and human resources for the production, of goods necessary for the prosecution of war.

The war affected the trade of India both directly and indirectly. The first direct effect was that it stopped considerably the trade with Germany

and Austria. There was further a complete stoppage of trade with Belgium and France. Trade with Turkey had also ceased. In addition to the loss of trade with enemy countries, the export trade with allied and neutral countries-had also suffered.

The dislocation of trade in the Madras Presidency during the war was enormous. The coasting trade, whose recrudescence was the result of the war, had, of course, suffered severely; freights for timber, for instance, had fallen from Rs.120/- per ton in 1918 to the low figure ofRs.30/-. Super dues on exports and imports were necessary to maintain the solvency of the Port of Madras in view of the depleted volume of trade. The shortage of land naturally affected the movement of products by sea; thus an enormous and unprecedented quantity of Burma rice was imported while no Indian rice was exported owing to the prohibition. There was a notable decrease in imports of sugar owing to the retrial from the market of

Bombay buyers; the general increase of the value of sea-borne trade over the figures for 1918 was as much as forty per cent. There was a tendency to multiply the installation of cotton, rice-mill and manufacturing industries. The activities of the Department of Industries had been vigorous and comprehensive and the financial results had been everywhere favourable.

Trade in the Madras Presidency during 1920-21 was more abnormal than any of the war years, consequent on the dramatic collapse of the European changes the depreciation in the value of rupee as a result of the adverse balance of trade, the accumulation of large stocks brought at high prices by overseas customers and unfavourable season. In the first year of 1921-22, the reduced purchasing power of the country consequent on the unsatisfactory monsoon of the previous years coupled with the high price of imported goods presented absorption of the heavy stocks in the market. Owing to the increase in the general rate of import duty on luxuries, fresh imports received a check. The export trade failed to come up to general expectations. In the next two years, the trade of the Presidency was passing through a period of recuperation and although under the stimulus of high prices, the value of the export trade expanded by over 10 crores of rupees, the value of imports declined by over 1 1/2 crores of rupees. The depression in Europe generally restricted the Presidency's outlet for produce and in turn diminished her purchasing power. The year 1924-25 witnessed further expansion in the export trading owing to fairly good crops in that year, the 'large demand for them as a result of improved economic conditions in buying countries and the consequential rise in the prices of the most of the exported produce. In the next year, the import trade in most articles was depressed despite favourable exchange and the tendency of the fall in prices considerably restricted imports, especially cotton piece goods, the price paid by the customer was still above the general average before the war.

Consequent on a marked improvement in the importation of cotton manufacture, sugar, dyes and colours, machinery and mill work, paper and paste board, there was an expansion in the foreign import trade of the year '1926-27. In the next two years, the trade assumed prosperous dimensions. Exports and imports in the year 1928-29 in particular attained a level never reached previously or subsequently. This was due to a general stability in the financial condition of the world; a stable exchange and a comparatively good supply of freight and reasonable rates. The year 1929-30, however, showed a slight diminution in the foreign trade of the Presidency. Following Great Britain's departure from the gold standard September 1931 and the linking of the rupee with the deprecated sterling, there was an immediate rise in price of all the principal commodities and this afforded a definite stimulus to the export trade.

The conditions created by the Depression in the Madras Presidency. such as availability of raw materials at low prices, cheap labour, low rates of interests for the money lent by banks, all proved to be conducive to the growth of certain industries registered commendable advances during the inter war period.

Though the Presidency witnessed industrial development, handloom, cottage and small scale sector had a trying time. The Government's taxation policy turned out to be disastrous to those sectors. When the tanners were demanding high export duty on raw skins and hides, the Government abolished the duty much against Indian interests. An excise duty levied on matches crippled the industry and the governments protective tariffs extended the Indian textile mil\s affected the handloom sector. A large number of weavers in handloom centres and labourers in small industrial establishments lost their jobs. In large factories, the workers had to suffer wage cuts. Instead of taking the offensive, the working class, in the face of acute crisis, remained passive. Even the strikes and struggles launched by the organized labour unions were of short duration, fizzling out in the end.

The damage and dislocation due to World War **II** left most of the, countries very short of real capital. They needed imports of equipment, raw materials and foodstuffs well in excess of their normal peacetime requirements, in order to rehabilitate their industries.

Our country had also been affected by war. Exports to the enemy countries had also been stopped and our imports had also been reduced on accounts of the lack of adequate shipping accommodation and the lack of power of foreign countries to supply good to us. Insurance premia had also gone up. Our industries had not expanded as much as they could. The currency circulation in the country now stood at about Rs.280 crores and the metallic content of the rupee had been reduced and the one rupee .inconvertible note had been issued. Control had been exercised over exchange and the imports and exports had been brought under control. The level of taxation had increased and the excess profits tax had been imposed. A system of price control had been instituted and certain commodities had been rationed. Thus Indian economy was turned into war economy.

The war opened scope for the development of some of our industries, e.g. the automobile industry, the aeroplane manufacturing industry and the like. But adequate steps had not been taken to bring these industries into existence. Our shipping industry was in a very backward condition. But, whatever industries had received the stimulus, they continued after the war.

In the post-war period, the war economy had to be converted into a peace economy. The readjustment caused as little inconvenience as possible. The industries that grew up during the war were allowed to continue in the post-war period with as little disturbance as possible. Then there were trade agreements. All these became a part and parcel of a plan of post-war economic development or economic reconstruction.

The Government prepared a plan of post-war economic reconstruction in which due importance was given to problems of labor, industries, agriculture, trade, tariff, finance, transport and the like. India was allowed to occupy her due place in the comity of nations by being declared a self- governing Dominion immediately after the war.

The war had an appreciable effect on the foreign trade of the Presidency. On account of the war, the balance of trade of the Presidency soon moved in its favour. As regards the quantum of trade, there was an increase in exports of materials needed by the Allies for the war. Both imports and exports fell during the war period, but the exports increased more than the fall in imports.

As a result of the war, the European markets were lost to the Presidency. The oil-seeds market was very much affected and it could not find out an alternative market in the United States of America since it was also a large producer of Peanuts. The Presidency market for linseed-oil was strongly completed for by Argentina and substitutes were used in U.S.A for jute. In regard to the Presidency trade with the British nation, there was not much of a definite increase or decrease in imports while there had been a steady increase in export side. Trade with the Middle East Countries, Australia and Canada also increased.

The industrial workers of the Presidency confronted an extremely difficult situation after 1930. The mill owners tried to pass the burden of trade crisis on to the shoulders of the workers by way of wage cuts and retrenchments. During the period, the workers did not achieve any new concession, rather they had to engage in a resolute struggle to retain not only whatever they had already gained but their very jobs. Yet, there was a rival in the trade union movement after 1933. It was mainly due to the revival of leftist forces, the constitutional reforms introduced by the Government and the recovery of economy after the Great Depression. The labourers in view of the Congress policy looked to the Congress Government in the Madras Presidency for support. The Congress refused to intervene directly to deal with the situation in arising out of strikes. The Congress Government led by C. Rajagopalachari treated the question of strike as dispute between two parties and hence favoured only internal settlement. The Government appointed arbitrators to implement the awards of the Court of Enquiry.

The Congress Government's two generation of office in Madras achieved nothing for the protection of worker's rights. This was probably because of the Congress continuous approach of not antagonizing the employers or factory owners while intervening in a labour dispute.

The Second World War had shakened the pace of the tendency of the diversion of trade from Great Britain. Next to Great Britain, U.S.A had become the biggest customer and on the import side also, she stood second only to England. Madras Presidency enjoyed favourable balance of trade. both with the British Empire and Empire countries and in both the cases, there was an appreciable increase. It may be mentioned that as a result of war, the balance of payments had also become favourable to the Madras Presidency as well as to India. This was due to the repatriation of sterling pensions. Finally, it may be stated that inspite of favourable position in which Madras was placed in respect of foreign trade, the terms of trade i.e. the exchange of imports for the exports were going against us.

The study of trade between 1940 and 1947 may be thus concluded:

1. The favourable position of foreign trade (export trade) was at the expense of the domestic consumer and reacted on the internal price system unfavourably.

2. The fall in imports created shortage of many articles and this produced rise in the price level.
3. The favourable position indicated by changes in the composition was deceptive. It did not indicate further industrialization of the Presidency. On the contrary, the heavy reduction in the import of machinery shows that our capital requirement was seriously subjected to greater wear and tear and thus to greater depreciation and
4. Inspite of our favourable position in regard to our export trade, the imports were growing costly in terms of our exports.

The Government of India had been pursuing a policy of discrimination towards trade and industry during our period of study. It demanded provincial contribution from stares to promote and develop trade and industries. The allocation of Central financial assistance to the Madras Presidency was inadequate.

In 1921, the Government of India insisted on the Provincial Contracts. The Madras Chamber of Commerce fought against the vexed question and enlisted the support of all other Associations and all sections of the Indian opinion but its attempt did not yield any success.

In 1922 like the Central Government, the Madras Government implemented retrenchment and economy measures to balance the deficit budget. The Chamber urged to lighten the grievous burden and questioned the legality of the Super Tax levied. It also pointed out the iniquity of the Government of India demanding a Provincial Contribution from Madras for its development of trade.

The Imperial Ottawa conference held in 1932 for giving some concessions to India's trade proved to be a business deal in furtherance of British Interests. The Chamber made a strong case for discontinuing the Ottawa Agreement in 1936. Though the Ottawa Agreement was renewed in 1939, it also proved to be beneficial to the British Trade rather than to the Indian trade.

The Congress Government led by Rajaji passed a number of Acts and levied taxes such as the Madras General Sales Tax Act, The Tobacco Tax Act, The Entertainment Tax Act and the Madras Sale of Motor Spirit Tax Act in 1937. The

Chamber questioned the constitutional tenability of these Acts and urged the need for the reduction of Stamp Duty, Excise Duty and Profession Tax in the city.

The Madras Chamber of Commerce always favoured a policy of Free Trade and its economic philosophy had been a mix of Free Trade and Protectionism as its pragmatic approach for the development of trade and industry in the Presidency.

It is said that the decline outweighed growth and that both growth and decline derived mainly from colonial policies. The economic interests secured by British rule led to the exploitation and impoverishment of India.

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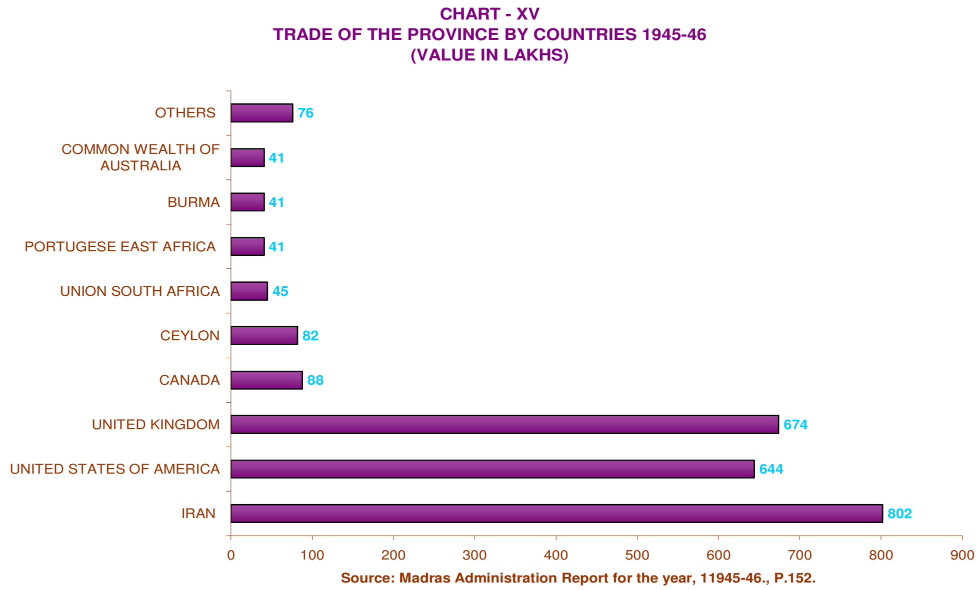
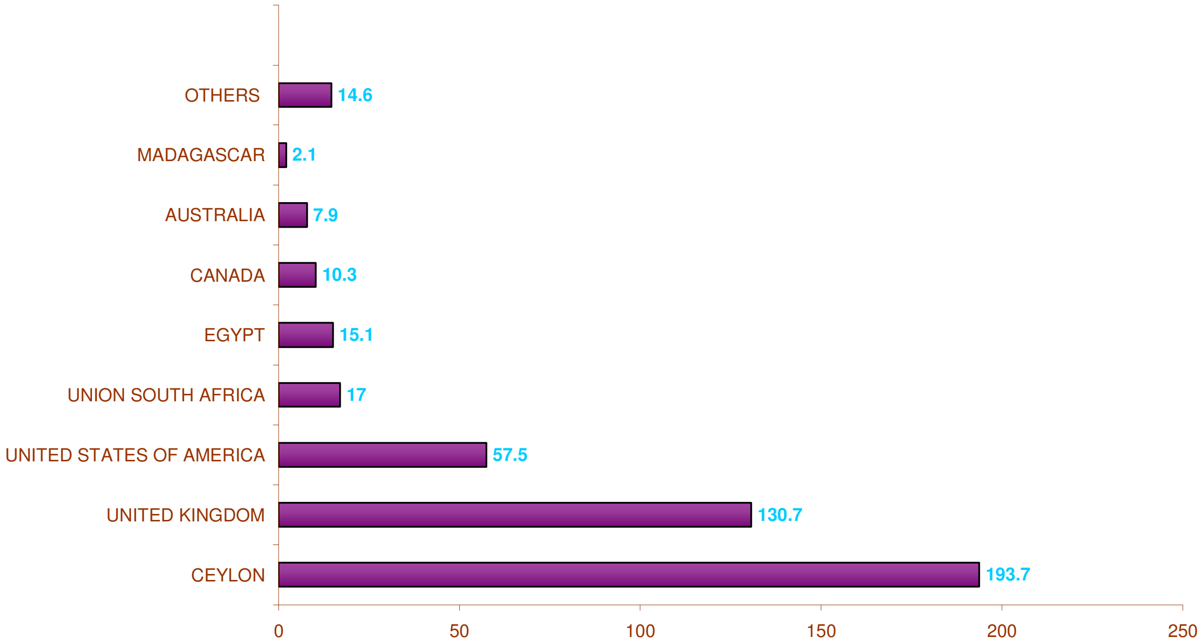
## APPENDIX



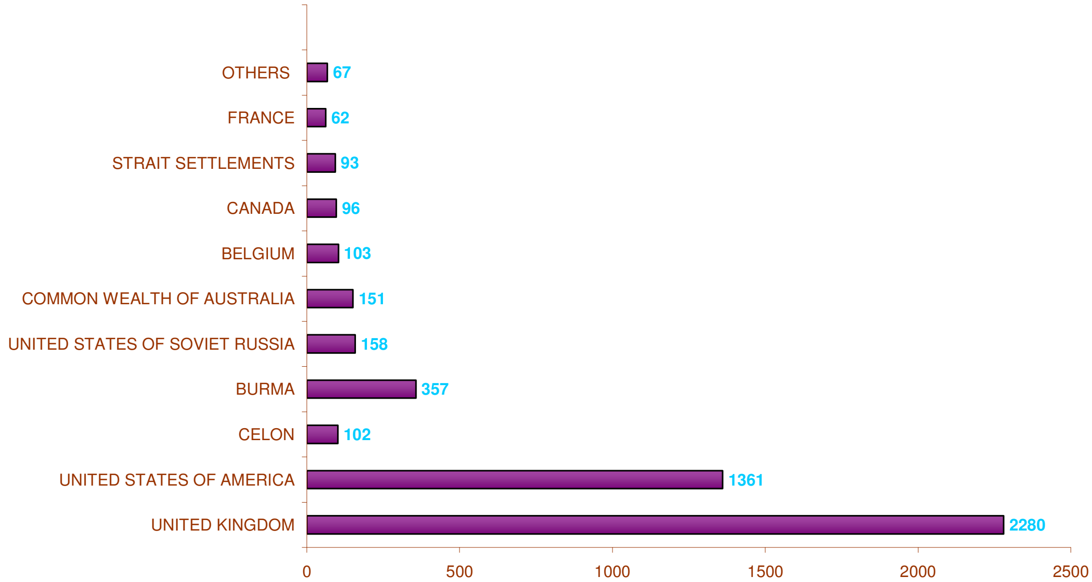

Source: Madras administration Report for the year 1945-46, P.152

**CHART - XII**
**TRADE OF THE PROVINCE BY COUNTRIES EXPORT (1944-45)**
**(VALUE IN MILLIONS)**



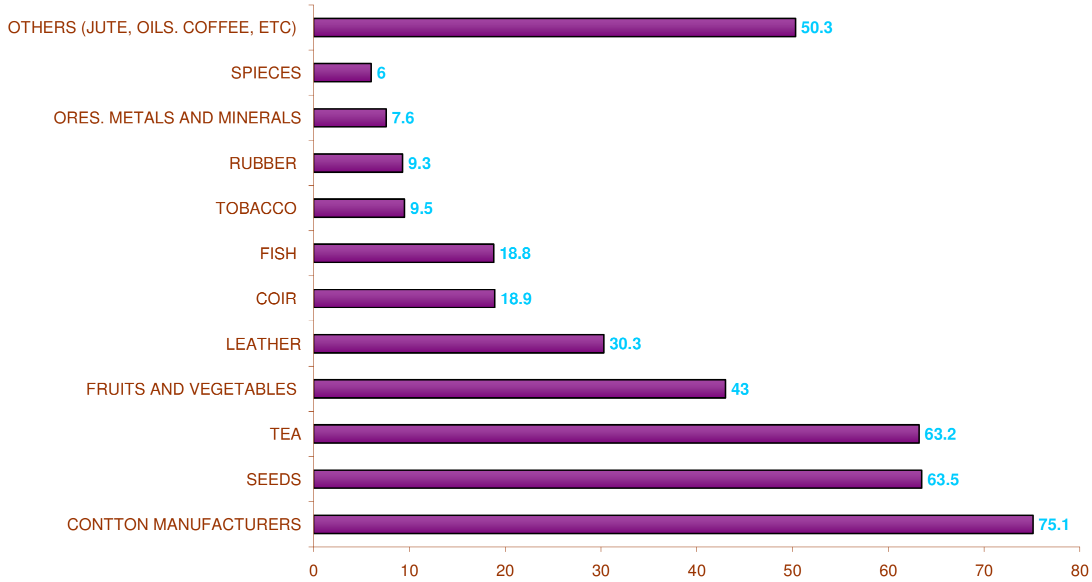

**Source: Madras Administration Report for the year, 11945-46., P.152.**

CHART - V
TRADE OF THE PROVINCE BY COUNTRIES EXPORT (1946-47)
(VALUE IN LAKHS)



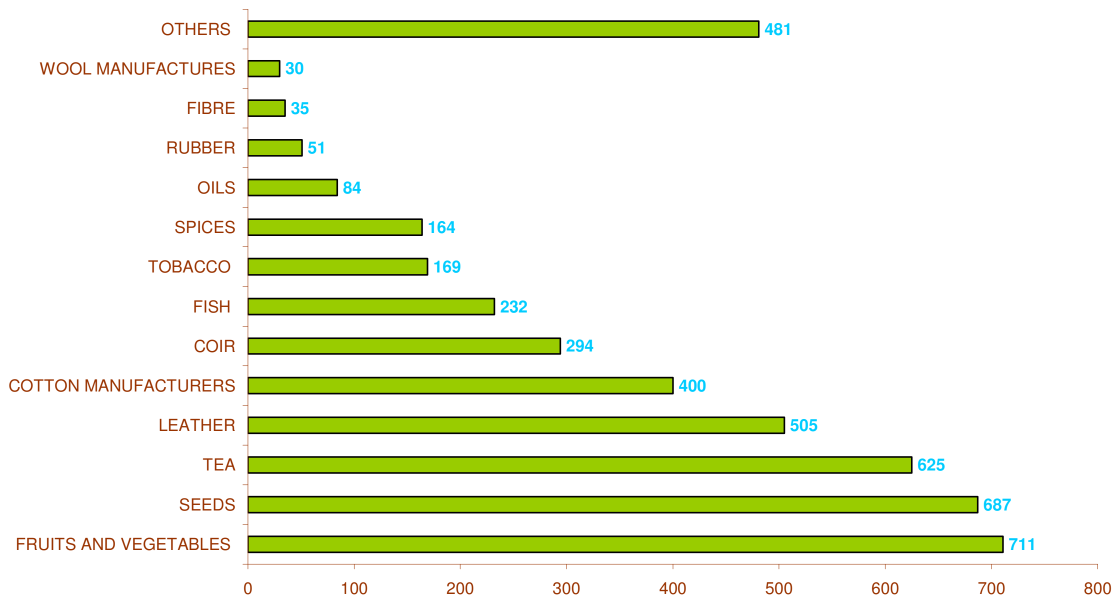

Source: Madras Administration Report for the year, 11946-47

**CHART - XVI**
**CHIEF ARTICLES EXPORTED 1944-45**
**(VALUE IN MILLIONS)**



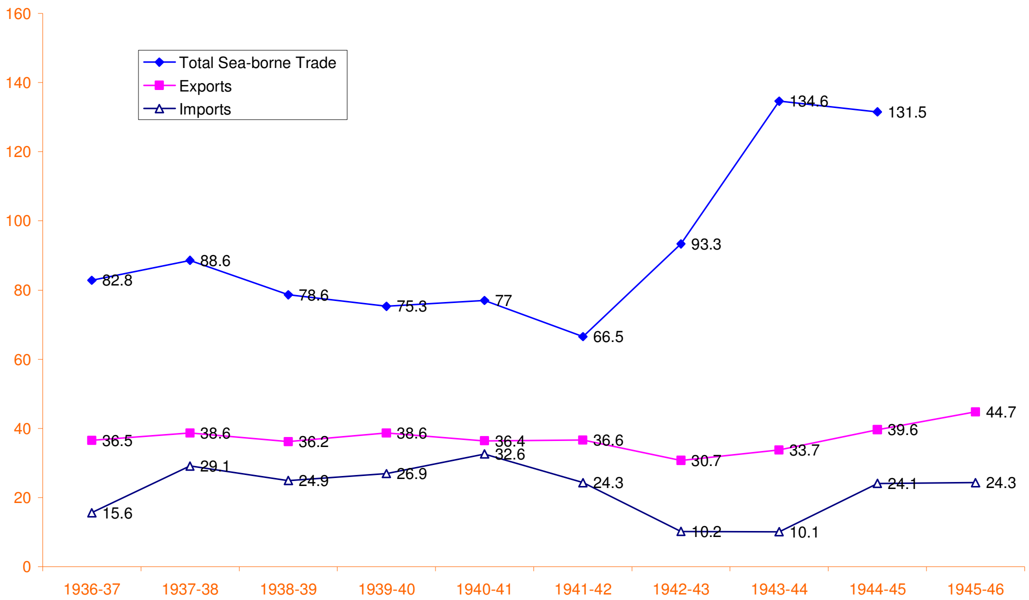

Source: Madras Administration Report for the year, 11945-46, P.207

**CHART - XIV**
**CHIEF ARTICLES EXPORTED 1945-46**
**(VALUE IN LAKHS)**



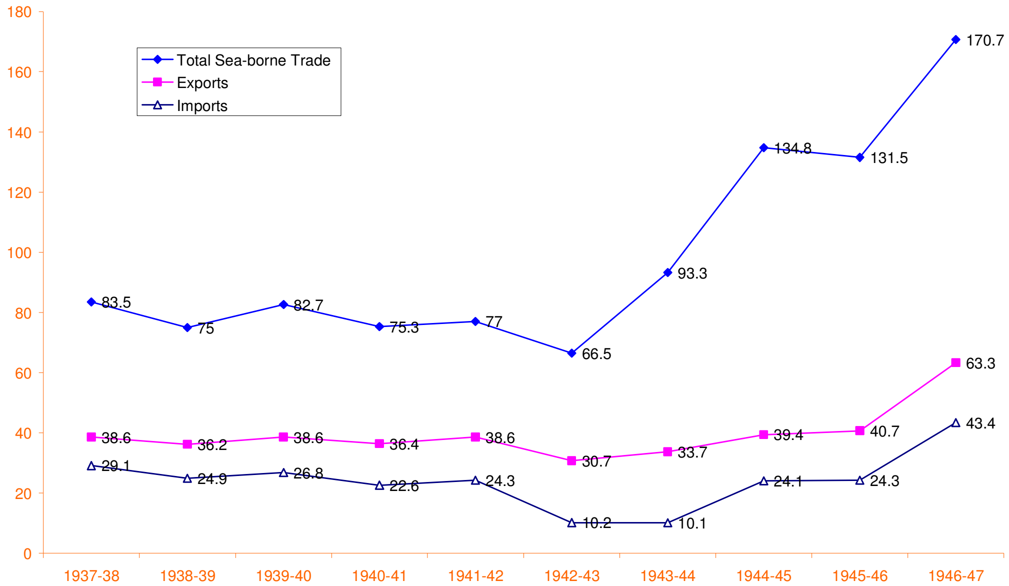

Source: Madras Administration Report for the year, 11945-46

CHART - XI
SEA - BORNE TRADE




Source : Madras Administration Report for the year 1945-46

CHART - X
SEA - BORNE TRADE




Source : Madras Administration Report for the year 1946-47

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