

# WILEY



---

The Indian Duties on Cotton Goods

Author(s): Elijah Helm

Source: *The Economic Journal*, Vol. 6, No. 21 (Mar., 1896), pp. 110-114

Published by: [Wiley](#) on behalf of the [Royal Economic Society](#)

Stable URL: <http://www.jstor.org/stable/2956784>

Accessed: 11-03-2015 05:38 UTC

---

Your use of the JSTOR archive indicates your acceptance of the Terms & Conditions of Use, available at <http://www.jstor.org/page/info/about/policies/terms.jsp>

JSTOR is a not-for-profit service that helps scholars, researchers, and students discover, use, and build upon a wide range of content in a trusted digital archive. We use information technology and tools to increase productivity and facilitate new forms of scholarship. For more information about JSTOR, please contact [support@jstor.org](mailto:support@jstor.org).



*Wiley and Royal Economic Society* are collaborating with JSTOR to digitize, preserve and extend access to *The Economic Journal*.

<http://www.jstor.org>

## THE INDIAN DUTIES ON COTTON GOODS

LITTLE more than two years ago the Customs tariff of India was, and had been ever since March, 1882, one of the simplest in the world. No other except that of the United Kingdom imposed duties on so few descriptions of merchandise, the import tariff embracing only arms, salt, alcoholic liquors, and petroleum. It was, moreover, completely free from the taint of Protection. In March, 1894, however, the Legislative Council, acting under the constraint of financial exigency, greatly extended its scope, and almost all kinds of imports were subjected to duty. One important class of merchandise was exempted—that of cotton yarns and piece goods—constituting about one third in value of the entire imports by sea, inclusive of treasure. This exemption was widely condemned in India, and by a few exponents of public opinion in England, on the ground that it was an inequitable concession to the interests of the British cotton industry, for the manufactures of which India had long been the largest market, and that it involved a wanton sacrifice of much-needed revenue.

Writing on May 3rd, 1894, two months after the new tariff had been adopted, the Secretary of State for India (Sir Henry Fowler) declared that he attached much importance to the opposition shown by some members of the Legislative Council to the exemption of cotton productions. He quoted a statement of his predecessor, Lord Kimberley, to the effect that if after an interval sufficient to judge of the financial position as affected by the Tariff Act, the course of exchange and other circumstances, no improvement in the financial position should appear, he would be prepared to receive a further representation from the Government of India on the subject of levying duties on imported cotton manufactures. In view of this contingency Sir Henry Fowler proceeded to lay down the conditions upon which these duties might be imposed. He said:—‘If your Government should be forced again to consider the question of imposing duties on cotton manufactures, it will be requisite to ascertain what classes of imported cotton goods come into competition with Indian manufactures of the same kind. Among imported cotton goods, there will probably be some classes of goods which directly compete with goods produced in India, some which partly compete, and some which practically do not compete at all. It would be for your Government, after full inquiry, to decide how far you could distinguish between these three classes of imported cotton goods; and then to consider by what measures you could deprive any duties that might be imposed, of a protective character. This object could be attained either by exempting from duty those classes of imported goods which clearly and directly compete with Indian manufactures, or by levying on the latter an excise duty equivalent to the import duty on corresponding goods from abroad.’

The unfortunate suggestion here made by Sir Henry Fowler of an

attempt to draw a line, for purposes of taxation and exemption in the same class of merchandise, distinguishing the kinds of goods imported which competed with Indian production from those which did not, has been an important if not the main cause of the profound dissatisfaction of persons engaged in the British cotton industry with the Indian Cotton Duties Act of December 27th, 1894. The new Act of February, 1896, which abandons the principle of discrimination, and applies the same duty equally to the whole of the machine-made cotton piece goods, imported and Indian, has been received with a guarded, though not merely a tacit or doubtful, approval; for both the Manchester Chamber of Commerce and the Joint Committee of employers and workpeople on the Indian cotton duties have signified to the Secretary of State a general acquiescence in the new arrangement. Immediately after this arrangement was placed before the Legislative Council, the Chamber wrote to Lord George Hamilton stating that it 'concurs with the proposal to place a uniform duty, equivalent to  $3\frac{1}{2}$  per cent. *ad valorem*, on all imported cotton goods, and all those produced in Indian mills, leaving yarns free of both import and excise duty, as being the solution of present difficulties least open to objection, so long as revenue must be raised from these sources.'

It is true that Sir Henry Fowler, when he made the suggestion just referred to, was not unmindful of the impracticability of justly exempting from excise duty any portion of the Indian mill production, on the ground that it did not compete with imports. He referred to previous experience—that of 1879–80—of an analogous attempt to discriminate, on the score of difference of quality, between Indian and imported goods. This experience arose out of the method then employed to partially abolish the previously existing import duties on cotton yarns and goods. For many years it had been evident that these duties were more or less protective, and that the rapid growth of the new Indian cotton mill industry was, in part, due to their stimulating influence. In 1875, Lord Salisbury, then Secretary of State for India, in a well-remembered despatch, had declared the speedy removal of the duties to be 'a matter of serious importance both to Indian and Imperial interests.' As a step in this direction the Viceroy's Council determined, in 1879, to repeal the duties on the coarser yarns and on the piece goods made from them, the line of exemption being drawn at No. 30s. In the technology of cotton spinning the degree of fineness of yarn is expressed by numbers; the lower the number the coarser is the yarn. At this time, it must be remembered, the production of the Indian spinning mills was very coarse, rarely reaching, or at any rate rarely exceeding, No. 20s, and it was entirely free from excise duty. But efforts were being made to spin higher numbers, or 'counts,' in India, and in order that the protective stimulus might cease, it was determined that all yarns not finer than No. 30s, and all piece goods made from them should be imported free of duty. What was the effect? In a remarkably short space of

time many descriptions of cloths, previously made from counts between 30s and 50s, constituting altogether a very large proportion of the entire imports of cotton goods, were displaced by cloths made from No. 30s. The weight of cotton in these 'duty frees,' as they were called, was not much, if any, greater than that in the descriptions which they displaced, because the number of threads in the square inch was reduced in order that the prices of the new cloths might not exceed, kind for kind, those for which they were substituted.

The principle of substitution, of which the experience gained in 1879-80, is a striking illustration, is perfectly familiar to all who are engaged in the business of the commercial markets. Whenever the price of a particular commodity is raised, buyers wholesale and retail alike, moved by a natural impulse, begin to seek out a substitute for it, and usually they accept something else, a little lower in quality perhaps, or at all events a little less costly, rather than pay a higher price. The demand is thus turned into new channels. A familiar example of this practice is well known in the markets for dairy products. Several months ago, the prices of butter were extremely low. Immediately the demand for margarine fell off enormously; but not long afterwards, when the prices of butter rose again, the demand for margarine returned with its accustomed force. Illustrations of the tendency referred to might be multiplied to an indefinite extent; and of course the tendency is not less conspicuous amongst the millions of buyers of cotton goods in India, and amongst the dealers and shopkeepers who supply their wants, than it is elsewhere.

Now Sir Henry Fowler was, as I have stated, perfectly well aware of this practice, when he wrote his despatch of May 31st, 1894, for he said:—'The experience of 1879-80, regarding the difficulty or the futility of drawing an arbitrary line for fiscal purposes between certain classes of woven goods must be remembered.' So clear and unmistakable a condemnation of any attempt to fix a line of exemption from excise duty should surely have been enough to dismiss it from consideration. Unluckily the despatch was inconsistent in this respect, for it at the same time invited the Indian Government, in the words already quoted, to make the demarcation which was in the next sentence put aside as futile. On receipt of the despatch the Finance Minister proceeded, without delay, from Calcutta to Bombay, where he conferred with the Bombay millowners upon the question of how far their productions were then competing with imported goods and yarns. The facts and arguments thus collected are set forth in a long and interesting minute, dated July 14th, 1894. Upon this minute action was taken in the following December, when the excise duty was placed upon all yarn spun in Indian mills finer than No. 21s, all below this limit, and also piece goods of every kind woven in Indian mills were exempted. Meanwhile import duty was levied on all imported yarns and piece goods of whatever description.

This arrangement was accepted by the Indian millowners with

little demur. In England and Scotland, however, it encountered strong opposition, and on May 27th, 1895, the Secretary of State received a deputation from Lancashire, the object of which was to point out the insufficiency of the excise duties to countervail the import duties. It was shown that, whilst the import duties were levied upon the entire value of piece goods, including not only the cost of the constituent yarns, but also that of the weaving, bleaching, dyeing, and other 'finishing' processes, the productions of the Indian mills were subjected to duty only on the value of the yarn. Sir Henry Fowler, in reply, admitted the force of some of these representations, asked for further information in respect of others, and promised that whatever defects in the countervailing excise duties might be proved should be removed. To one argument, put forward by the President of the 'United Cotton Manufacturers' Association, no answer was given. Mr. Garnett said: 'It seems that the deviser of the excise duty has overlooked a principle which has always been carefully observed by English Chancellors of the Exchequer, namely, that in imposing a duty, whether of customs or excise, the duty should be applied to all commodities which can in any way compete with, or be substituted for, the particular article to be taxed.' Examples of the punctilious care with which this principle has been and still is carried out were submitted. Its applicability to the case of fixing a dividing line at which no competition is supposed to be possible between different grades or qualities of the same class of commodities is obvious, and the futility of assuming that there will be no competition of the non-taxed with the taxed descriptions of the same class, admitted by Sir Henry Fowler himself, should have been sufficient to condemn at once the Act of December, 1894. The mistake then made has now been rectified, although there still remain some defects in the excise arrangements, regarded as a complete system of counterpoise. The exemption of the handloom woven goods from taxation may be dismissed as inevitable, since this is impracticable and is impolitic, even if it were practicable. Except the weaving of fancy and highly elaborated clothing, which is largely conducted in and around Benares and in a few other districts, handloom manufacture is, in India, mainly a 'spare time' industry; it is not professional. In neither case does the handloom production come into competition with the powerloom goods either of India or of England, and it would be impossible to collect the tax upon it without the risk of grave injustice, or of large exemption for want of the means of assessing an individually minute production throughout so vast an area as that of India.

Whatever may be the future of these duties, it is extremely unlikely that any attempt will ever be made again to draw a line of exemption at any particular point upon the theory that the home production below that line does not compete with the imported article. Evidence that there was a certain amount of importation of goods made from English No. 20's and below was presented to Sir Henry Fowler, and it was no answer, according to English fiscal principles, to say that the

quantity imported was small. No Chancellor of the Exchequer would listen for a moment to such a plea for exemption from an excise duty. But the point which, all through these discussions, was overlooked, both by Sir Henry Fowler and by Sir James Westland, is that statistics, bearing upon the competition of imported and Indian-made goods, having reference to a time when both were free from duty, can have little or no value, when used to indicate what the competition may become as soon as differential prices are set up by the imposition of a duty on the one from which the other is exempt.

ELIJAH HELM.

### THE OPIUM INDUSTRY

THE Report of the Royal Commission on Opium, which was presented to Parliament on the 26th April, 1895, contains a large amount of valuable information regarding the opium industry in India. It is the object of the present article to give in small compass some account of the circumstances under which opium is produced in, consumed by, and exported from that country; of the appointment of the Royal Commission and the conclusions at which it arrived; together with some other facts illustrating the working of the State monopoly. The statements made are derived chiefly from the Report and its appendices, supplemented occasionally by other information in possession of the writer. The ethical side of the subject is not here touched on except incidentally.

Broadly speaking, subject to a few unimportant exceptions, the opium poppy is cultivated under two distinct systems in India. The first of these is that which is known as the Bengal monopoly, and is in force in British territory, as distinguished from the native tributary States. In the palmy days of the Mogul empire, following though apparently not during the reign of the Emperor Akbar, opium was an imperial monopoly, and was farmed out. In the general disorder which accompanied the decay and breaking up of that empire, in the middle of the eighteenth century, the monopoly fell into abeyance; and the insecurity of life and property which then prevailed led to the adulteration of the drug, and the curtailment of cultivation and manufacture by private agency. Eventually, in 1773, when British rule had been established in Bengal and Behar, Warren Hastings, then Governor-General of Bengal, revived the Mogul monopoly in favour of the East India Company. For some years the trade was farmed, but in 1797 the direct, or 'agency' system was introduced by Sir John Shore, and has remained in force, without substantial alteration, to the present time. Under this system, poppy cultivation is permitted in some forty districts in and around the upper part of the Gangetic valley, and is prohibited throughout the rest<sup>1</sup> of British India. In this tract cultivation

<sup>1</sup> In the Punjab, which was annexed in 1849, and where under Sikh rule the poppy had been extensively grown, cultivation is permitted in a few districts on payment of an acreage duty.