**The President, Mr. G. D. Birla, M. L. A., in requesting His Excellency the Viceroy to declare the proceed-ings of the Third Session open said:—**

Your Excellency and Gentlemen,

It is my proud privilege to accord to Your Excellency a hearty welcome on behalf of Indian Commerce and

Industry as represented by the Federation. We fully appreciate the honour you have done us—not for the first time—by your presence as the Viceroy and Governor-General of India at our Annual Meeting, and I respectfully tender to Your Excellency our grateful thanks for your very kind response to our invitation. I also extend our welcome and thanks to the Members of your Council whom we are so glad to find in our midst to-day.

Our welcome to-day is coupled with the most sincere congratulation on Your Excellency's providential escape from the recent outrage which sought to victimise you. No condemnation could be too strong for any such attempt; and we wish it were more widely known and realised than it apparently is that every such misdeed means a setback to the country's cause. It is so immensely satisfactory to find that there has been universal reprobation of the dastardly deed throughout the country, and we as a body, no less interested in the well-being and prosperity of our motherland than any other section of the public, should like to express our utter abhorrence of every such resort to violence, and to say that a worse disservice to the country could not be conceived.

My predecessor in office referred in his speech last year to the unjust exclusion of Indian firms and nationals from the commercial organisations in London. I am glad to be able to say that since then progress has been made, for which the credit is due in a very large measure to Your Excellency. Indian commercial interests feel indebted to Your Excellency for the personal interest you have been taking in the matter, and for the beginning of a new chapter to which your efforts have contributed. I cannot help thinking in this connection of the conciliatory speech of Sir Stephen Demetriadi, who set the the ball rolling, and who deserves our thanks for the attitude he has all along taken. Our thanks are also due to Sir A. C. Chatterji, High Commissioner for India in London, for the very great assistance he has rendered in the matter.

Since the last Annual Meeting of the Federation, we have lost two of our best friends who were also two of the most doughty champions of the country's economic interests —I am referring to the deaths, so unfortunate, and in one case under such tragic circumstances, of Mr. B. F. Madon and of Mr. Narottam Morarji. The Indian business world never stood in greater need of men of their ability and patriotism than to-day, and the loss to the country is truly irreparable.

A year has gone by since we last met, and for India its record has been anything but satisfactory. It has been a year of hopes deferred, of progress delayed, with no improvement in the situation, either economic or political, and with a positive set-back, at least so far as industry is concerned. Discontent and unrest have been deeper than ever and in the industrial sphere have found vent in general strikes affecting cotton and jute in Bombay and Calcutta, respectively, and sporadic disturbances at other centres. Figures are wanting which could give a full measure of the loss caused by such strikes to both employers and employed, but that it must have been considerable admits of little doubt.

There was a prompt settlement of the strike in Calcutta, and jute came out more or less unscathed. This was due to the prosperous condition of the industry which did not think it advantageous to prolong the strike and could well afford to make an adequate response to labour demands Things were quite different in Bombay, and with the best intention in the world, it could not emulate Calcutta in this respect. There the industry was, as it still is, on the verge of death. And in the absence of the necessary margin on which to draw, it continued to look with mixed feelings on the situation, with the result that the strike was unduly prolonged and broke down only when labour began to starve. But if there is no general strike for the moment, it does not mean that there is no discontent or unrest. A more correct reading of the situation perhaps is that the fire has not been extinguished, it is only smouldering.

There are aspects of the problem which my association with the inquiry into labour conditions precludes me from dealing with here. But this I will say that in so far as both capital and labour in an industry have the same complaint, *viz.*, mal-nutrition, traceable to the same cause, *viz.*, general depression in the country, the worst thing they can possibly do is to fight and try to annihilate each other. There is undoubtedly more than one factor making for unrest on the part of industrial labour. In the main, there is the sense of a new awakening, a growing desire to raise the standard of living. This is a hopeful sign. The pity, however, is that the fund, out of which all dividend is to come, is so small. Every national activity, and industry most of all, finds itself in the grip of a general depression, the source from which all evil flows; and it is no wonder there is so much discord and strife around us.

The desire of labour for a larger income or better conditions of life is quite legitimate and laudable. But how to find the wherewithal to meet their demand is a problem yet to be solved, and any deferment of the solution essentially means trouble of a most acute kind. The situation must, therefore, be faced boldly and sympathetically. True there are industries, like jute and tea, which have been enjoying, at least until recently, a run of prosperity, but then they derive their strength from a foreign source. All other industries which have necessarily to depend on the home market are in the throes of depression. In the circumstances, are they not right who contend that there can be no permanent and general improvement in the condition of labour unless there is all-round prosperity in the country? There must be an increase in the purchasing power of the people and thus a greater demand for the service which industry renders, before there can be any real and lasting improvement in the condition of industrial labour.

Of that industrial prosperity, however, there are no signs on the horizon. Rather we seem to be losing ground even in fields from which we thought we could not be

ousted. I refer to the foreign inroads in recent years on our agricultural industry which is the mainstay of our population. The large imports of wheat and imports of rice from foreign countries during the last four years are a new, and I may add, an alarming phenomenon in the economic history of India. The question which many serious-minded persons have been asking themselves is, how is it that the Australian grower of wheat can undersell the Punjab peasant in the Indian market and wrest so much territory from him? If it be true, as some maintain, that the imports are due to increased consumption, how is it that the Indian cultivator cannot produce enough to meet the demand?

Let those who are best qualified for such an attempt try to find an answer to the question, and the larger question concerning the general depression from which India is suffering. While I am not sure of the precise answer, I am sure of the direction in which it can be found. Our fiscal policy does not suit our requirements and it is in this direction that the causes of our depression have to be traced.

India is a debtor country, with huge foreign liabilities, and one of her urgent and permanent needs is the maintenance of a large excess of exports over imports for discharging her annual obligations under this head, if for no other purpose. That being so, our fiscal policy should be one shaped in accordance with our peculiar needs and having for its key-stone the principle that Indian trade and industry and agriculture should be so fostered as to ensure a self-contained India in many directions and make it possible for us after meeting our own requirements to maintain a larger surplus of exports than what we are doing at present.

My own feeling and the feeling of a very large section of the Indian mercantile community is that our present fiscal policy does not answer that description; and it is therefore that the country is faring so ill. Our industries are anaemic because of want of proper nourishment and that nourishment cannot come so long as the people's purchasing power re-

mains at the present low level. A higher standard of life is certainly a great desideratum, and with the desire or ambition to attain it, we cannot but have the fullest sympathy; but how to realize it in view of our liablity to maintain a large and a regular favourable balance of trade, is a riddle yet to be solved. It could be solved, but not under the present fiscal policy of the Government.

I referred a little above to our huge foreign liabilities. I intend developing the point at some length in the hope that it will stimulate that interest in the subject which it so richly deserves. As it does not lend itself to a statistical treatment our blue-books take no notice of it. The ordinary publicist is aware of the existence of such liabilities, but about its implications not many seem to be much concerned. The time has come when those interested in the economic well-being of the country should look a little more closely into the matter and try to find out its bearings on our economic condition, both present and future.

I would make one thing clear at the outset. I have nothing to say for or against foreign liabilities as such. Any transaction, individual or national, must be judged on its own merits. To find out whether it has been useful or otherwise one has to look to the circumstances of the case and weigh the good against the evil. I would apply the same test to our foreign liabilities.

To my mind we can be said to have made a good bargain only if we have borrowed the money on our own terms and applied it for increasing the general productivity of the country. The transaction could be called a success from our standpoint, only if it established us after a time in a position not only to pay off the amount borrowed but also to build up a reserve which, after meeting our own capital requirements may be utilised for making investments abroad. Judged by this criterion, how do our liabilities stand ?

The first thing to be ascertained is their extent. The Associated Chambers of Commerce in their evidence before

the Simon Commission have assumed 1,000 million sterling as the total of British investments in India. This gives us a figure which we may take as the basis of our argument. It presumably includes the amount invested in Government loans. A good portion of it is no doubt the ordinary business investment; and it may be contended that it does not carry with it any liability to repay it so far as the country is concerned, because if the business is a success the investor gets his return and if it is a failure, he loses his money—still, the effect thereof on the economics of India is the same as, or similar to, that of the other foreign liabilities of the country. An equally good portion is invested in private loans, debentures, preference shares, etc., carrying a fixed interest; and for the payment of the debt represented by such investment, the country is directly responsible, or to make it clearer, the payment has to be made out of the national wealth. Calculated at 6 per cent. the annual rate of interest or return on the amount mentioned by the Associated Chambers comes to about 60 million sterling or about 80 crores of rupees.

There are other foreign liabilities, popularly known as Home Charges, to meet which there is an annual remittance to the Secretary of State of about 40 crores. Deducting from this about 17 crores, which represents interest paid on account of Government borrowings, for as presumably Government borrowings are already included in the figure of the Associated Chambers of Commerce, we cannot count the same liability twice, a balance of about 23 crores remains.

There are yet other payments against services, such as transport, insurance, professional work, etc., which increase our liability to a much larger figure. But I have deliberately omitted them because to acquire or not to acquire other people's services is a matter which could be said to rest entirely at our discretion. I have taken only those liabilities which we have definitely incurred and for the redemption of which we must make annual remittances. And if we took only the above mentioned two items, *viz.*, 80+23 crores, we have an annual liability for remittance abroad of about 100 crores.

I would invite the serious attention of all well-wishers of the country to the magnitude of the figure and the pace at which it is multiplying. In 1900-01 Government's total foreign borrowing amounted to about 200 crores. In 1929 it stood at 470 crores. In 1900 our Home Charges excluding Railway Charges and interest amounted to 10 crores; they are now about 19 crores and taken at the old rate of exchange about 22 crores. An estimate of total British investments in India up to and including 1910 put it at about 365 million sterling. The figure, as taken by the Associated Chambers, is now about 1,000 million sterling. I am no alarmist, but the issues involved are so momentous that I cannot help asking the country to take note of these figures and ponder over their significance.

A question to be considered in this connection is the way in which all this foreign capital came to be imported. The Associated Chambers in their representation throw no light on it. A layman who looks into our trade returns for the last 50 years does not come across any figures indicating a flow of capital from England or other foreign countries into India. He finds that India has maintained an excess of exports over imports all throughout, with the exception of a few years, and he naturally fails to understand how, in the absence of any excess of imports over exports the foreign investor came to be in possession of such a mammoth sum as 1,000 million sterling in India. The only inference he can draw is that the capital was not imported from outside but was earned and reinvested in the country itself from time to time.

In any case, the liability is there and it is daily growing. Every year the visible favourable balance of trade, which, it is true, shows a steady increase, is eaten up by the invisible imports represented by our obligations in this behalf. On an average the annual excess of exports over imports (private) during the period 1899-1900—1903-04 was about 30 crores, which sufficed for the necessary remittance. During the period 1923-24—1927-28, the corresponding balance has been about 67 crores, and yet we have had to experience difficulty

in managing remittances for what is called the "Home Charges". Even with such a large visible balance of trade in our favour, Government has had to decimate our currency reserves and contract currency in order to put funds at the disposal of the Secretary of State because of serious competition from private remitters who seem to have only lately taken to the practice of remitting abroad a good portion of their earnings which, in the past, they used to re-invest. Unless India has an unusually large balance of trade in her favour, the Government are likely to find the problem of Home remittances very perplexing indeed in the near future.

But the country must think of her own obligations and the way she is going to meet them. She has not felt the pinch so far, mainly because, as I said, the yield on British capital has found re-investment in India itself. India's case has been more or less analogous to that of an individual who can not pay even the interest on the money he has borrowed and has to borrow still further to enable him to do so. Liability can thus be postponed but cannot be extinguished. One day the account must be settled and the consequence of a policy of living on such borrowings faced.

Let us clearly understand what this means. It is a question of simple arithmetic how the paltry sum of a rupee invested at 12% compound interest becomes a lakh at the end of 100 years. At 6% compound interest, the principal is doubled in 12 years. Taking the total foreign investments to be about 1,000 million sterling and assuming that India may not be able to remit the annual return on the sum, it should be doubled by 1942 and quadrupled by 1954. It may not be pleasant to contemplate, but the indications at present are that we shall be stepping into the other half of this century with a crushing burden on our back of a huge liability and with it an annual commitment, to discharge which India must maintain an excess of exports over imports to an extent beyond our present means. The consequence of failure to maintain such large exports could be more easily imagined than described.

It may be said that a large portion of our borrowings has after all been invested in productive projects and therefore the prospect cannot be so gloomy. But is any appreciable benefit—which should be the logical consequence of such a situation—at all perceptible so far ? The argument advanced is that the country gets more from her productive investments than she has to pay for her borrowings. Such a situation must, as a matter of course, in respect of Government investments lighten the taxpayer's burden, and in respect of private investments increase the real national income. But has that happened ? It has not; because in the first place every so-called productive investment is not adding to the real national income, and secondly, whatever little benefit is derived from it is eaten up by the extravagant administrative expenditure. We are, therefore, in no way better off.

It is no consolation to hear that but for these productive investments, Government expenditure and consequently taxation would have further increased. Who could say that the so-called productive investments themselves have not been among the contributory causes of a top-heavy administration ? The matter, however, requires a much more detailed examination than I can attempt within the short time at my disposal. Whatever our corresponding investments in India, whether productive or unproductive, the fact remains that we are not in a position at present to meet our liabilities.

Instances could be cited of other countries which after a period of borrowings have either stopped borrowing entirely and begun to invest abroad or have reduced the volume of yearly borrowings and are gradually moving towards a stage like that of America which from being a debtor country has been able to convert herself into a creditor country. At the end of 1913, America, according to a reliable estimate, owed abroad $4,500,000,000 (net). A decade later, she was a net creditor nation for $3,500,000,000 apart from the $11,800,000,000 due from the Allies to the U. S. Govern-

ment. There has been a similar transformation in the case of Japan.

But what is our position ? It is this. We are not in a position to-day to pay off our debts or even to discharge our annual liability. To talk of finding a surplus for investments abroad under the circumstances will be simply an absurdity. We have been having recourse to the foreign market for more than 70 years, and yet so little is our strength or stamina to-day that we cannot think of being able to stand without that crutch or do without fresh borrowing every year.

There are men who would have us believe that things are far otherwise and that Indian prosperity has been growing at a phenomenal pace. It has become the fashion in such quarters to pour ridicule on those who maintain a different proposition. I would rather risk such ridicule and be dubbed a Jeremiah than shut my eyes to the facts that stare me in the face.

If there are men who have exaggerated notions about the surplus that is being annually created and rendered available for investment in the country, I would only refer them to the daily experience of Indian trade and industry in this respect. The surplus could only come out of the savings of the people, and the grim reality is that they have not enough even for their daily needs. The realities of Indian life are that the masses are steeped in deep poverty, that they are finding taxation an unbearable burden, that their purchasing power shows no increase and that it is impossible to raise the standard of life even by a little, under the existing order of things.

Figures are marshalled at times to indicate India's growing prosperity when in reality they have no relevancy whatsoever. Exports or imports in which the masses are not interested as producers or consumers are no barometer of their prosperity. India's poverty is too hard a reality for all, and no statistics can succeed in putting a permanent

gloss on it or explaining it away. In the words of the Rt. Hon'ble Mr. Ramsay Macdonald, "the poverty of India is not an opinion, it is a fact."

What then is the solution ?

I am sure that all the schemes that may be devised in this connection must centre round one thing, and that is the increase of India's productivity. There is no room for economy or retrenchment so far as our standard of life is concerned. A large retrenchment could, and I submit, should be made in Government expenditure. This applies specially to the army department. In fairness to this country, a good portion of its military expenditure ought to be paid by Great Britain, as the army is partly maintained for Imperial purposes. To quote the present British Premier again, "nine-tenths of the charge of the Army in India is an Imperial charge. Canada, South Africa and Australia should bear it as much as India." But above everything else there is the urgent need of a substantial increase in India's production, and if we are not to head towards disaster, we must adapt our means to that end.

India is mainly an agricultural and partly an industrial country, and if we are to strive towards attaining a solvent position we must increase our production in both the directions.

The improvement of Indian agriculture has been the subject of an extensive enquiry in recent times, and we are aware of the deep interest taken in the subject by Your Excellency. The Report of the Royal Agricultural Commission points to several important directions in which reforms are needed, though there is general disappointment at the failure of the Commission to suggest any radical cure for India's agricultural ailment. Their failure, however, is to be ascribed chiefly to the handicap imposed on them by their terms of reference which were characterised by over-cautiousness bordering on timidity. In any case, the fact is deplorable, and I share the disappointment that the achievement

of the occasion was so poor as compared with its promise. I would not attempt any enumeration of the measures that are urgently required for putting Indian agriculture on a sound basis, for we all have a fairly good idea of them. What is required most of all is a comprehensive grasp of the problem and boldness in taking the initiative and carrying the needed measures through. The solution of the problem presented by Indian agriculture is a task of the highest statesmanship and we all expect Government to tackle it in that spirit.

Turning to the industrial side, one is struck by the want of co-relation between our pressing needs and the fiscal dispensation under which we live. I had the privilege of serving on the Fiscal Commission which was appointed to "examine with reference to all the interests concerned, the tariff policy of the Government of India." Five of us, including the President, wrote a minute of dissent differing in their conclusions from the majority, consisting of six, mainly because the main recommendation of the latter had been qualified by the condition that Protection should be applied with "descrimination along the lines of the Report." But even that halting recommendation about discriminating Protection is yet to become the guiding principle of the Commerce Department. In fact, if I may say so, the policy pursued during the last few years has been more in the nature of "discriminating Free Trade" than of "discriminating Protection."

Arguments which are utterly irrelevant are often employed to oppose the demand for full protection. One of them is the well-known plea that it is opposed to the consumers' interest. I cannot speak of the conditions in other countries, but in India at least the producer and the consumer are not such separate entities, living in water-tight compartments. Every cultivator here is both producer and consumer. Even to-day one-third of the cloth supply is the product of hand-looms and the producer and the consumer are practically the same. To give another instance, a large part of the gur and sugar annually consumed in India is

made in her cottages. Speaking of the vast mass of its population, one could really say that in India the functions of producer and consumer are, more often than not, combined in the same individual.

Indians recognised long ago the urgent necessity of giving Protection to their industries, and in the absence of any popular control over the fiscal policy, they had to content themselves with propaganda in favour of Swadeshi and for the boycott of foreign goods. It may be easy to misrepresent the motive of the Capitalist when he advocates Protection and to depict him as the arch-enemy of the consumer. But what about the Indian National Congress, which is certainly not a Capitalist organisation? That body at least can be expected to know what is in the consumer's interest and oppose all such demands as go against it. What does the popular propaganda for a boycott of foreign goods mean if not protection of the indigenous industry? India derived her first lessons in economics from British savants who were almost all free-traders and yet she could never bring herself to believe that she could do without Protection. Her fiscal faith is the result of the most mature deliberation on the subject and if she had her way, she would not stop short of giving that faith a concrete shape and form.

It may be permissible here to make a passing reference to the policy pursued by a country like America. So far as general prosperity is concerned, its condition is so different from ours. We are a debtor country and not at all solvent. America is a creditor country which has secured a very large part of the world's gold in recent years. But with all that she does not countenance any proposal of lowering her tariff wall. The world can only pay in kind, and America by keeping her tariff so high, is compelling it to sell its goods in the American market cheaper than it would otherwise have done. The world may fret and fume but America is not to be deflected from her course. The moral for India is plain. If full-fledged Protection is necessary for a credi-

tor country like America, it is all the more so for a country like ours, which is so heavily indebted and is almost floundering in the bog.

Unqualified Protection is India's primary need in her peculiar situation to-day. But I use the word in the most comprehensive sense. Tariffs or bounties are only a part of the policy which I advocate. I plead for Protection by every practical means to agriculture, industry, banking, insurance, marine transport— in fact to every branch of our economic activity. I wish every action of the Government to breathe a national policy, which might be summed up as 'India first and India last.'

I have tried to describe the situation as it is. The picture presented here is certainly not bright, but it is faithful to the reality. To put the whole thing in a nutshell, let me summarise our position, which is:—

(1) that we are a debtor country with large foreign liablities;

(2) that our present resources are not adequate for a due discharge of our obligations;

(3) that due to our failure to fully discharge our annual obligations, our liablity is increasing at a frightful pace;

(4) that unless we are to court disaster, the situation demands the maintenance of a large surplus of net exports to enable us to discharge our annual obligations and pay off, if possible, a portion of our debt;

(5) That the maintenance of such a surplus is only possible by giving impetus to our productivity; and

(6) that our present fiscal policy can never give the needed impetus to our productivity as it is not designed to that end.

The first thing to be done, if we are at all anxious to avoid all rocks and shoals ahead, is to give a new tack to our fiscal policy. I have placed before you a few suggestions and probably many more could be made. But the change which I advocate as the first essential of all progress is a change in our fiscal policy. We are all agreed that the fiscal policy which we have been pursuing so far is not in our best interests, but I go further and say that it is not calculated to promote even the interests of those who have made such large investments in the country.

Unfortunately that fact is not as well realised by them as it ought to be. Our friends of the British commercial community have so far been generally on the wrong side in matters affecting the country's prosperity. Their record from the time of the imposition of the Cotton Excise Duty to that of the deliberate appreciation of the exchange-rate, would attest the truth of this remark. Whenever they have had to make a choice, they have taken a narrow view of the matter, and have given their support to measures which were detrimental to the best interests of the country. In view of their past attitude I am constrained to address a few words to them in a friendly spirit and I hope they will not misunderstand me.

Men cannot gather figs of thistles, nor can creditors realise their dues from insolvents. A prosperous India alone can redeem her debt, and the policy to be followed in future should be one which makes for her prosperity at every turn. They owe it as much to themselves as to this country, to strive in co-operation with Indians for a new order of things. The legacy of the past, if allowed to become the model for the future, will never pay them. It will mean the forcing of a situation upon India, in which, with the best intention in the world, she cannot meet her obligations in full.

The present discontent in the country is almost wholly due to the miserable plight in which the people find themselves. The middle class population has to put up the hard-

est struggle possible to keep body and soul together and are amongst the worst victims of unemployment. The condition of the masses needs no recapitulation. They do not seem to be suffering from unemployment to a similar extent because their standard of living is so low that nothing could possibly be lower.

But things cannot remain as they are. The placid contentment of the masses is already disturbed. Even the worm at a certain stage begins to turn, and the dissatisfaction of the dumb millions unless its causes are removed, is bound to make itself felt one day. Let all concerned, therefore, reflect calmly and seriously on the subject and adopt in time a far-sighted policy so that the disaster may be averted or at least minimised.

A prosperous India means peace for the world; a famished India a grave menace to it.

I would now request Your Excellency to declare the procoedings of this meeting open. That you should have found time to accept our invitation in the midst of the legislative session is but one more proof of your deep interest in everything conducive to India's welfare. On behalf of the Federation and myself, I thank Your Excellency very warmly again. (Loud Applause).