Chapter III

Second World War and its Impact on Trade
The First World War had left bitter memories in the minds of Germany and her allies, particularly, Germans had a feeling that their army had not been defeated in the First World War, but had been betrayed into a surrender. The military classes resented the “War Guilt” clause of the treaty and other humiliating provisions. Hence, they supported Hitler when he proceeded gradually on the path of aggression. Hitler claimed that Germany was being encircled by Russia, England and France and that her natural aspirations and their development were hindered. Nations like Italy and Japan also felt that they had not got a proper share in the territories of the world to help their economic advancement and that the division of the earth’s surface was unequal, Italy was resentful of the attitude of the Western powers on the Abyssinian questions.1

Japan was casting her eyes on the Pacific area which had unlimited supplies of rubber, oil and tin.

“The primary cause was the failure of the League of Nations to restrain aggressors. The League of Nations had failed to bring about disarmament. It’s weakness against aggression encouraged other aggressors. The failure of the league could be explained by the fact that no state was willing to give up its sovereignty and submit all matters to the decisions of a world organisation. So long as this mentality continued, suspicion and insecurity amongst the countries were also bound to continue².

Mussolini of Italy and Hitler of Germany had practically same objects in view and both formed a close alliance known as the Rome – Berlin Axis. While Germany and Italy were extending their territories, the Allies – England and France made protests, but they did not declare war, probably, they dreaded war and were not prepared for it. But the patience of the Allies was exhausted when, in August 1939, Hitler demanded the restoration of the Corridor (which had been ceded to Poland by the Treaty of Versailles) and Danzig without waiting for a reply invaded Poland on September 1, 1939. War began between Poland and Germany.

² Ibid, p.272; The Mail (Madras), dated 5 September 1939, NNR.
Both England and France had given their word to Poland that in case she was invaded, they could come to her help. So they declared war on Germany on September 3, 1939. Thus Poland, England and France were on one side and Germany on the other. A few days before the beginning of the war, Russia also had entered into an agreement with Germany. In the beginning, Italy kept aloof but she declared war on the Allies in June 1940.

World War II was also a global war in which almost all the great countries of the world became involved. When it began, England and France were fighting on behalf of Poland with Germany, Italy and Japan which were on the side of Entente before were now Axis powers, though they did not enter the war at once. But, Italy joined the war as Germany's ally. In the second half of 1940, Germany forced Hungary, Rumania and Bulgaria to join her. In 1941, Germany turned against Russia which hitherto was neutral, as Hitler had concluded a non aggression pact with her in 1939. In December 1941, Japan joined the war against Britain and the United States. Thus the war took place over the vast areas of the world and over all the oceans. Later

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3 Ibid, p.273; 
*The Swadesamitran (Madras), dated 19 September 1939, NNR.*
China, several Latin American states and Turkey joined against Germany. The whole world felt the effects of the war\(^4\).

War is a mighty upheaval, which violently disturbs the social and economic equilibrium. World War II was bound to have far-reaching consequences, the magnitude of which cannot be foreseen. The war of 1914-18 reduced the conditions and created problems which baffled statesmen. The economic adjustment from which the World War I differed before the World War II was the legacy of the war of 1914-1918.

Close upon the heels of that war came World War II. The latter had been characterised by the colossal destruction of material and human power. Practically the whole of the continent of Europe lay–estrated before Hitler, Poland, Belgium, Holland, Norway, Sweeden, France and Balkhan countries were all groaning under the unbearable tyranny of Hitlerism. Russia had put up a brave defence. Britain and America remained the only countries to fight with the Axis powers\(^5\).

\(^4\) Ibid, p.274; The Indian Express (Madras), dated 20 September 1939, NNR.
\(^5\) The Indian Review, 1936, Vol. XXXX, p.157; The Andhra Patrika (Madras), dated 14 October 1939, NNR.
Mighty empires had fallen before Hitler and there had been colossal destruction of material and prosperity. The currencies of various countries had been reduced to a chaotic state. Standing crops had been destroyed and industrial towns had been bombed. There was the problem of feeding the people of the conquered countries. Inspite of her economic and military cooperation and collaboration with Germany, France had been compelled to pay an indemnity of 400 million francs every day- a payment which was far in excess of what Germany was ever called upon to pay under the Peace Treaty of 1919.

The problem to be solved in the post war period was of far-reaching importance. The huge loss had to be repaired, currency and banking required to be reorganized and the flow of international trade had to be revived. After the war of 1914-18, currency adjustment was brought about with great difficulty in various countries. The problems of industrial reconstruction, war debts and reparation payments proved to be very tough and complicated.

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6 Ibid, pp.158-160; The Mathrubhumi, (Calicut), dated 17 October, 1939, NNR.
7 Ibid, p.79; The Tamilmani (Madras), dated 19 October, 1939, NNR.
The question of giving employment to the disbanded armies in various countries would prove a very tough one. A number of Industries grew up during the war, e.g. the automobile industry, the aeroplane manufacturing industry and the like. They were war-time industries and the conversion of war economy into peace economy was indeed difficult. It required the shifting of labour and capital from war industries into peace industries⁸.

All this required international cooperation i.e., cooperation between the leading statesmen and central banks of the various countries of the world. Unfortunately, this could not be secured after the war of 1914-18 to an adequate extent and it was still more difficult to secure after the war was over.

Every war leaves behind a series of taxes and loans. The taxes and loans imply transferences of wealth between different classes of people. The problem of repaying these loans would have to be solved and it would, indeed, be very difficult to secure social justice.

⁸ Ibid, p.799;
The Ananda Vikatan (Madras), dated 3 November 1939, NNR.
The war had brought an end to the economic depression through which the World War passing before 1939. Its end created conditions that might usher in a more formidable economic chaos. There was the trade cycle theory and it was not without historical justification. The problem of the post-war economic depression required international cooperation.\(^9\)

There were world-wide or international problems and consequently they required international cooperation. Hence the establishment of a body styled as International Economic Rehabilitation Commission became necessary. The League of Nations and the International Labour Organisation were already in existence. They had now become more or less defunct. Their revival to suit the changed circumstances became necessary.\(^{10}\)

President Roosevelt and Mr. Winston Churchill had already announced their plan of a future world peace. The terms of their plan applied to all countries, irrespective of their political status and the degree of their economic development.\(^{11}\)

\(^{10}\) Ibid, p.280; The Malayala Manorama (Kottayam), dated 26 January, 1940, NNR.
\(^{11}\) Ibid, p.283; The Tamilnadu (Madras), dated 28 January 1940, NNR.
The damage and dislocation due to the World War II left most countries very short of real capital. They needed imports of equipment, raw materials and food stuffs well in excess of their normal peace-time requirements, in order to rehabilitate their industries. The chief source of such imports was the United States, which had emerged from the war with an output much greater than before. But the chief way in which they could earn dollars was by exporting goods to the dollar area. Their export industries had suffered from the war and most countries could not export anything like as large a volume of goods as they did before the war. They suffered therefore, from an acute shortage of dollars12.

The United States of America came to their assistance. Under the Marshall Plan she agreed to provide European countries $4,875 million (which the U.K. Share was $1,263 million)13. Over four years, mostly by grants and partly by loans. The purpose of the Plan was to hasten the economic recovery of European countries; to enable them to increase their

13 Ibid
output and exports and eventually to stand on their own feet. The Marshall Plan came to an end about 1951, but it was in effect replaced by "defence aid", grants given by the United States towards the cost of buildings up armaments by European countries for the defence of the free world\textsuperscript{14}.

The United States had given large grants to other areas also, notably the Far East, during the post-war period and had also made long–term loans and investments in Canada, Latin America and elsewhere. The total amount of dollars she had made available to the rest of the world in these ways had exceeded her export surpluses and she had to part with some gold, from her gold reserve, to make up the difference\textsuperscript{15}.

The problem of disarmament received due attention. It was embodied also in the Peace Treaty of 1919 but it was not worked in a right spirit, hence the present war. For securing disarmament, a permanent international

\textsuperscript{14} Ibid, p.504; \textit{The Hindu (Madras) dated 9 February, 1942 NNR.}
\textsuperscript{15} Ibid, p.505; \textit{The Mail (Madras) dated 10 February, 1942, NNR.}
commission backed up by some sanction or authority was established. In these conditions, the post-war economic reconstruction was established along sound lines.\textsuperscript{16}

A few words must now be said about India. Our country had also been affected by war. Exports to the enemy countries had been stopped and our imports had also been reduced on account of the lack of adequate shipping accommodation and the lack of the power of foreign countries to supply goods to us. Insurance premium 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\textsuperscript{17}, 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 of foreign currency into and out of India had been brought under control. The level of the taxation had increased and the excess profits tax had been imposed. A system of price - control had been instituted and certain

\textsuperscript{16} Ibid, p.507;  
\textit{The Indian Express (Madras) dated 8 March 1942, NNR.}  
\textsuperscript{17} G.O.Ms.No.2361, Development, dated 28 September, 1940, TNA.
commodities have been rationed. Thus Indian economy was turned into war
economy\textsuperscript{18}.

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. Out shipping industry was in a very backward condition. But
whatever industries had received the stimulus, they continued after the war\textsuperscript{19}.

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, which grew up during the war were allowed to continue in
the post-war period with as little disturbance as possible. Then there were
problems of tariff and transport and of international trade agreements. All
these became a part and parcel of a plan of post-war economic development
or economic reconstruction\textsuperscript{20}.

\textsuperscript{18} G.O.Ms. No.1242, Development, dated 10 May, 1940, TNA.
\textsuperscript{19} Ibid
\textsuperscript{20} G.O.M.S. No.2949, Development dated 15 May 1940, TNA.
The government prepared a plan of post-war economic reconstruction in which due importance was given to problems of labour, industries, agriculture, trade, tariffs, finance, transport and the like. Further India was allowed to occupy her due place in the comity of nations by being declared a self-governing Dominion immediately after the war.\footnote{G.O.Ms.No: 1730, Development dated 10 July, 1939, TNA; Anstey Vera - The Economic Development of India (London, 1952) pp.551-553.}

The economic activity was completely subservient to political and military demands. The deterioration in international relations and the decline in activity in the United States had a depressing effect on the trade of the primary producing countries including India. In the next six months there was a sharp recovery in the United States and an uncertain movement on a slightly rising trend in the rest of the work. Towards the end for the year the political situations caused a fresh set back and the commodity markets weakened appreciably.\footnote{G.O.Ms.No:2968, Development dated 10 July, 1939, TNA.}
In Madras the Bank rate remained unchanged at 3 percent. The deterioration in the economic position was reflected in the value of Cheques passing through the Madras Clearing House which declined from Rs. 109.90 crores to Rs. 98.91 crores. The gross earnings of the Madras and Southern Mahratta Railway increased from Rs. 749.33 lakhs to Rs. 754.44 lakhs while those of the South Indian Railway fell from Rs. 559.85 lakhs to Rs. 546.74 lakhs. The total value of the sea-borne trade of the Presidency both foreign and coastwise decreased by Rs. 945.25 lakhs or 10.68 percent to Rs. 903.81 lakhs. Imports from foreign countries (excluding Burma) declined by 14.55 percent and exports by 7.26 percent.\textsuperscript{23}

An aspect of finance was that attracts much attention and the effort on the part of the government was inflation. In simple terms inflation is a state of affairs where there is an expansion of money income without a corresponding increase in production. In India due to some peculiar circumstances obtaining from during the period of war, the volume of

\textsuperscript{23} G.O.Ms.No:922, Development dated 5 April, 1939, TNA.
currency went on increasing without any corresponding increase in production. All the war purchases made by the British Government in India were agreed to be financed by India and this was effected to a large extent by the printing of currency notes. Thus the total number of notes in circulation which was Rs. 174.39 crores in 1938-39 rose to Rs. 1138.70 crores in August 1945 while the total deposits, the amount of which stood at Rs. 227 crores in 1938-39 rose to Rs. 384 crores in August 1945\(^24\). This obviously resulted in an enormous surpluses purchasing power while there was an acute scarcity of goods due to the diversion of all estimated supplies to the demands of war. Consequent inflation set in and prices scored up to abnormal level. Taking the lease year 1939 at 100, the index number of wholesale prices gradually went up to 244.9 in 1945-46. As regards the cost of living as reflected in the Bombay Presidency the index number was reckoned at 100 in 1939 rose up to 238 in 1945-46\(^25\).

\(^{24}\) Reserve Bank of India Bulletin by Reserve Bank of India – Basic statistics Indian Economy, 1938 and 1939m pp. 147-51.

\(^{25}\) Ibid.
In contrast with the high prices obtaining in India, we find in U.K and U.S.A prices always were kept under control in the war period. In these two countries inflation was cautiously avoided in spite of large expenditure\(^\text{26}\). Taxation was pitched at a high level from the beginning. All avenues were explored to encourage and increase savings and to direct them to government in the form of war loans. Rationing and price control were strictly enforced. Thus it was by diverting and increasing part of the national annual income that was financed without inflation\(^\text{27}\).

The war had an appreciable effect on the foreign trade of the Presidency which we can distinctly notice in all directions. On account of 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\(^\text{28}\).

\(^{26}\) Ibid
\(^{28}\) Varshney, R.L. - *India's foreign trade During and After the war*, Delhi, 1949, pp. 304-305.
As a result of the war, the European markets were lost to Presidency. The oil seeds market was very much affected and we 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 seed oil was strongly completed 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 the export. Trade with the Middle East Countries, Australia and Canada also increased²⁹.

War and Agriculture: The cultivator had been benefited by the new situation since the real burden of his debt had been reduced and he was able to pay his money obligations by the money released by the rise in prices. But this advantage could not be availed of by many people, since a majority of the cultivators in the Presidency did not have any surplus at all to reap the

advantages of higher prices but they were only subsistence farmers and even those benefited by the higher prices had to buy other manufactured goods at increased prices. But, on the whole, it must be said, that the lot of the farmers of the Presidency had to some extent improved during the war due to the appreciated land values and the increase in prices for their products\textsuperscript{30}.

The food situation in the Presidency during the war gave some anxious moments to the people and the authorities concerned. There were serious shortages of food grains due to some exports purchases made by the defence services and due to the lower production\textsuperscript{31}.

Consequent upon the failure of monsoons, cyclones and other factors, this had necessitated apart from the “grow more food” campaign introducing, many measures such as stopping of exports, increased imports of food materials, the setting up of the procurement machinery, a wide rationing system, statutory price control and various other measures.

\textsuperscript{30} \textit{Fort Nightly Reports (Confld) II Half of Dec. 1941.}

\textsuperscript{31} \textit{Ibid}
Besides, price control there were innumerable economic controls instituted during the war which were comprehensive of almost all economic activities of the Presidency. These were meant to divert resources to the war purposes and to distribute the scarce supplies equitably among the larger number of purchases.32

War and Presidency: The industry of the Presidency during the war stood on a different footing from that of agriculture. The Presidency trade had to face many problems in stepping up production to meet the various increased demands. The Presidency did not possess the chemical or the engineering industry worker employed in factories were only a few thousands.33

Presidency war economy: Thus the Presidency had to depend upon foreign imports of manufactured goods, machinery, spare parts and machine tools for manufacturing production. During the war, due to the shortage of

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33 Fort Nightly reports (Confcl), 11 Half of Dec 1942
shipping space, the imports of machinery were not possible and due to the export locomotives to the Middle East and the shortage of coal, the inland transport system was also put to severe strain.

Trade unions: Trade union, according to Webbes, "is a continuous association of wage earners for the purpose of improving conditions of employment". This narrow conception of the trade union has often been criticised. The predominant view, however, is that the concerns of trade unions extend beyond 'bread and butter' issues. Trade unions are considered not merely as economic organisation, but also as political institutions directed towards wresting control over managerial authority. The political character of the unions has been exemplified by Karl Marx and his followers who visualized trade unions as harbingers of social revolution to change the whole structure of class domination. Thus the political roles of the union range from job regulation at workplace to bringing about a social revolution.  

Until the middle of the nineteenth century, except coal mining, there was no industrial activity in the country in the modern sense. The setting up of textiles and jute mills and laying of railways since 1850 paved the way for the emergence of labour movement in India.\(^{35}\)

The origin of the movement can be traced to the sporadic labour unrest dating back to 1877 when the workers of the Empress Mills at Nagpur struck work following wage cut. In 1884, Bombay textile workers demanded improvement in wages and working conditions. It was estimated that there were 25 strikes between 1882 and 1890.\(^{36}\)

The earliest organizations to be formed on the lines of modern trade unions were: (i). The Textile Labour Association at Ahmedabad (movement started in 1917 with a strike for wage rise, but the association was formed in 1920) led by Anasuyaben Sarabhai and (ii). The Madras Labour Union (1918) led by B.P. Wadia.\(^{37}\)

\(^{35}\) Gosh, G. Indian Trade Union Movement, Calcutta, 1976, P.57.
\(^{36}\) Dalal and Company, Textile Industry in South India, Madras, 1955, P.63
The Nationalist Home Rule Movement and the difficult conditions after World War I led to the growth of union movement in early 1920’s. The political leaders of that time, philanthropists and social workers took the initiative in organising industrial workers at major centers either for political reasons or because they were moved by the wretched conditions of the workers\textsuperscript{38}.

In 1920, The All India Trade Union Congress (AITUC) was formed because of the need to have a national center of labour to depute delegates to the International Labour Organisations (ILO) formed in 1919. By 1924, there were 167 trade unions with a quarter million members\textsuperscript{39}.

The conditions after the war, the growing unrest in unionism and the spate of strikes led the government to consider legal initiatives in 1920s. The Indian factories Act, 1922, enforced a 10-hour day. The Indian Trade union Act of 1926 made it legal for workers to organize and to protest and

\textsuperscript{39} Murphy, E., Unions in conflict : A comparative study of four south Indian Textile Centres, 1918-1939, New Delhi, 1981, pp. 64-65.
exempted actions following out of legitimate trade union activity from the purview of civil and criminal proceedings. This Act still continues to the basic law governing trade unions in the country.40

Ideological differences within AITUC led to a three-way split between communists led by M.N. Roy and Dange, nationalists led by Mahatma Gandhi and Nehru and the moderates led by N.M. Joshi and V.V. Giri. While party ideology was supreme for the communists, the main preoccupation of the nationalists was independence. The moderates however wanted to pursue trade unionism in its own right and not subjugate it completely to broader political aims or interests. The moderates and the communists broke away from the AITUC in 1920 and 1930s but rejoined AITUC by 194041.

The industrial workers of the Presidency confronted an extremely difficult situation after 1930. The mill owners tried to pass the burden of

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trade crisis on 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 into 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 rivalry of leftist forces, the constitutional reforms introduced by the Government and the recovery of economy after the Great Depression (1929-33)\textsuperscript{42}.

The trade union spirit in the year 1929 and the British government's offensive against labour unions which culminated in the Meerat Conspiracy case had put the working class on the defensive position. The Indian National Congress which was developing into a mass organisation under the leadership of M.K.Gandhi capitalized the situation to win over the working class\textsuperscript{43}. The workers also began to realize that the remedy lay in the liberation of the country from the foreign yoke. Therefore there was a meeting point for the congress and the labour. The congress evolved a labour


programme which included recognition to union and the right to strike for the workers. When the Congress decided to lift its ban on entry into legislature and contest elections in the year 1937, it used an election manifesto which contained an elaborate labour programme, Madras Labour Union which commanded the support of the majority of workers in the Madras Province totally identified with the Indian National Congress. In the election, Congress was voted to power and formed the ministry in July 14th 1937 with C. Rajagopalachari as Prime Minister.\textsuperscript{44}

When the Congress was installed in office, there was a lot of expectations on the part of the workers, when the Labour Union Leader, V.V.Giri was appointed as labour minister the workers rejoiced at his appointment. In the context of the World Wide Economic Depression which hit the Madras Presidency also, the wages of the workers in factories had been cut down.\textsuperscript{45} The Economic Depression led to large scale unemployment and the fear of unemployment prevented the workers from launching a stiff

\textsuperscript{44} G.O.No.810, Public (Elections), dated 26th April, 1937 TNA; Government of Madras, Madras Labour, July 1937 to October, 1938, p.154; Lakhman, P. - Congress and Labour Movement in India, Allahabad, 1947, Pp.215-217.

\textsuperscript{45} Ibid
resistance to restore the wages. By 1937 the Depression had ended and there was recovery. But the managements were not prepared to lift the wage-cut inflicted in the outbreak of strikes in a number of factories. It was also a coincidence that the congress had come to power at that time. The labourers in view of the Congress policy looked to the Congress Government for support. The congress refused to intervene directly to deal with the situation arising out of strikes. The Congress Government led by Rajaji treated the question of strike as dispute between two parties and hence favoured only internal settlement. Whenever there was no scope for internal settlement the government only preferred to institute Courts of Enquiry to give settlement awards. The government appointed arbitrators to implement the awards of the Courts of Enquiry. In some cases the Court of Enquiry gave findings which were unfortunate to the workers. In a few cases the factory management refused to comply with the recommendations of the court. The Government in such cases did not act decisively and forced the management
to enforce the settlement awards. In consequence, strikes prolonged in a number of factories and the workers had to exhaust all forms of struggles before compelling the Government to intervene\textsuperscript{46}.

There were instances wherein the government had treated a simple labour dispute as a problem of law and order. Invariably we see Government involving Criminal Procedure Code to handle the situation in a number of labour disputes. Event the Congress labour union leaders like Muthu Ramalinga Thevar was put behind bars by the Government. The statement of labour minister and the opinion expressed by the Prime- Minister of the Madras Presidency in certain instances of labour disputes clearly indicates that the policy of the Congress Government towards labour was not helpful. The workers were thoroughly disillusioned with the performance of the Congress Ministry and this was probably the starting point for alienation between the Indian National Congress and the All Indian Trade Union

Congress that eventually paved the way for the congress starting the separate All Indian Federation of Workers called INTUC in the year 1947\textsuperscript{47}.

While the British blamed the Congress for the explosive labour situation as the Congress had given a number of pledges on the eve of election. Congress on the other hand blamed the communists who according to them were creating trouble to the government. As the British government used to attribute motives to a strike, the Congress government also placed on record that most of the strikes broke out during the period were engineered by socialists or communists. But the hard reality was that the workers had legitimate grievances when the Congress Government made it a policy to appoint them only on the basis of conciliation.

The Board of Arbitrators, to bring out a settlement, the Workers who were not favourable to the policy of the Congress Government. But even for the appointment of conciliation or arbitrators, the workers had to precipitate

\textsuperscript{47} G.O No. 297 – Development, dated 8\textsuperscript{th} February, 1940, TNA ;
matters. The Congress Government could not have made use of the situation
to extract legislation to the interests of workers. But this was sadly absent
during the Congress regime. Thus the Congress government's two
generation of office in Madras achieved nothing for the protection of
workers' rights. This was probably because of the continuous approach of
the congress not antagonizing the employers or factory's owners while
intervening in a labour dispute.\footnote{Report on the Administration of the Madras Presidnary for the year 1941-42, pp.307-309.}