

THE INDIAN CURRENCY
AND
Exchange Problem.



Jwala Prasad Singhal.



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THE

INDIAN CURRENCY

AND

EXCHANGE PROBLEM

BY

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ॐ श्रीराम ॐ

To

The embodiment of Truth and Virtue

Mahatma Gandhi

**in memory of my beloved father
the late Babu Pyarai Lal, M. R. A. S.**

PREFACE.

The need for reconsidering the whole currency policy in view of the startling developments of recent times, and the absence of a book dealing with the subject exhaustively from the National point of view are sufficient to account for the appearance of the present work. The highly technical subject of currency has not been made all the more tedious and dry by huge statistics, but necessary figures in brief are given wherever required. The two appendices at the end are added for the facility of those who have not had much opportunity of studying the theoretical principles before, but the limitations of space available have made only a brief treatment possible. I am highly obliged to Mr. Ghaneshyam Dass Birla of Birla Brothers, Calcutta, whose generous help towards the publication of this edition has made it possible to bring out the book. The price of the book is so fixed as to be within the reach of all. It is prayed that it may be helpful in the formulation of a sound currency policy for the country.

ALIGARH CITY: } JWALA PRASAD SINGHAL.
21st May, 1921. }

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THE INDIAN CURRENCY

AND

EXCHANGE PROBLEM.

To find out the most beneficial system of currency for India it is necessary to understand the present system studying also the causes that have contributed to its development, and its effect upon the trade and industry of the country. Consequently a brief study of its history under British rule is necessary to see clearly how India has been gradually reduced to the economic position of a veritable shining silvery hollow.

The historical portion of the question divides itself into two chief periods — one the period of unrestricted rupee coinage and the other the period of the closed mints.

BEFORE THE MUTINY.

Prior to the advent of the Company's currency "A variety of gold coins were current during this period : for instance the gold Mohur of Bengal, the old Bombay Mohur and the Bombay gold rupee ; various gold pagodas of Madras, such as the star pagoda, the old pagoda, and the Porto Novo pagoda

and the gold rupee, half rupee, and quarter rupee which replaced the Madras pagodas under a regulation of 1818..... Up to the end of the eighteenth century gold coins circulated freely, and a large portion of the revenues was paid in gold. In Madras down to 1818 the currency was based upon the gold pagoda, inherited from the Hindu rulers of Southern India, which came to be reckoned as equal to Rs 3½. The minor denominations were fanams and cash: 42 fanams = 1 pagoda, and 8 cash = 1 fanam." (Pages 515 and 516 of Vol. IV. of Imperial Gazetteer). This is no flight of imagination, but the sober language of an official report. In the words of Lord Northbrook, ex-Viceroy of India ".....under the Government of Madras, gold coins were then the principal currency, money of account, and the measure by which the pay of troops was generally calculated." Up till that time gold circulated so freely as to be current even in such small denominations as the one equalling Rs 3½ only. How was this gold currency tried to be maintained by the Company? When the Company reformed its currency and brought the different systems of its possessions to one basis, it passed the Act XVII of 1835 which while permitting gold coins to be coined by its mints took away their legal tender position. To expect a coin which is not legal tender to be current can be

possible only in a land of miracles like India. In this instance however the miracle did not happen. It is now said that the rupee has been in existence in one form or another for the last 380 years being introduced by Sher Shah in 1542. But if the age of currency is the only consideration, then according to their own showing gold mohurs had been in existence for a far longer time till the Company chose otherwise. Although the gold coin was made useless for currency purposes yet various attempts are said to have been made for the introduction of gold into India, the 1st. being the notification of 1841 which authorised gold coins minted by the Company's mints to be received at the Government treasuries. The Government expected that people will purchase the more valuable gold in preference to the less valuable silver and get it minted for the mere luxury of making a present thereof to the Company. The people were more careful, and so it was declared that gold was not popular and formed "no part of the currency." When however gold fell in value people were very anxious to take the glittering metal to the treasuries, but then by a notification of 1852 the "now" valuable privilege of 1841 was withdrawn from 1st. January 1853 reducing the currency again absolutely to one metal, and that metal was silver. Indeed but for this prohibition gold would have gained a strong position in the currency because of its fall in value:

AFTER THE MUTINY.

After the Mutiny the Government of India changed its attitude and fell in with the people in demanding a gold currency. In 1864 the whole merchantile community, European and Indian pressed for gold. The Government of India supported the demand ; the Secretary of State did not consider that the time was ripe for it. But the prohibition of 1853 was withdrawn and sovereigns and half-sovereigns could be received at the Government treasuries "until further notice" at Rs 10 per sovereign. The position was still that of bullion and the sovereigns could be popular only when gold fell in value, and at such a time the Government would not have liked to suffer the loss. The attempt to introduce gold was therefore as abortive as before. The demand for a legal tender gold currency was continued to be urged till in 1866 the Government appointed a commission which testified that "the opinion is general, almost unanimous, that the currency should consist of gold silver and paper" and recommended " a legal tender of gold to be a part of the currency arrangements of India." In the words of Sir Richard Temple "the state of exchanges prevailing since that time" (1864) "has not been such as to cause the importation of gold bullion. And indeed nothing can bring about a permanent

influx of gold, while gold pieces are not legal tender". He went further and admitted that "in respect of metallic currency we deliberately withhold from her the first rate article, and afford her a second rate one." This was written when he was the Finance Member of the Government of India in 1872. The International Monetary Conference of 1867 also had declared in favour of gold, but for Europe only, for those countries which had silver standard or the double standard were requested not to fix the silver value so as to introduce a gold currency. Sir Richard lost his office and the Government of India also gave up its stand for gold in 1874. While academic discussions about bimetallism were taking place European countries were demonetising silver and the gold price of silver was falling rapidly. The Government of India began to suffer huge losses in the remittance of its Home Charges because the Government received its revenue in silver, and had to pay the Home Charges in gold, and so required more and more silver for paying the same amount of gold. It again pressed the introduction of gold and the limiting of the rupee coinage. The Treasury opposed because under it the rupee would have become a token coin and yet remained a standard currency. The simple condition of stability of a full value legal tender coin would have been removed,

and undue artificial control would have been introduced disturbing all the relations of debtors and creditors. The difficulties increased and the Government a few years later again made a proposal for the fixing of value of gold and silver. But the Treasury thought the artificial fixing of value and control harmful and inadvisable. Bimetallic discussions proved abortive. But the remedy had to be found. A new factor had entered into the situation. The Government of India and the exporters of Britain began to be seriously inconvenienced. In the words of Prof. Taussig "As silver fell in price the English exporter's bill in India became less valuable in England ; it was one for which he could get less sovereigns. Under the same conditions—falling price of silver the Indian exporter had in India a more valuable bill, one for which he could get more rupees. This situation operated to stimulate exports from India to Great Britain and to check the exports from Great Britain to India. There was something in the nature of bounty on exports from India, one which caused bitter complaint among those whose industries were affected by Indian competition " The complaint must have been bitter enough to have been heard in America. A solution had to be found but without giving gold to India. The British Government considers the wealth of its people its own chest, and values British trade above everything else ; the

year of 1893 saw the beginnings of that curious system of currency, the baneful effects of which are sought to be extended and aggravated in the report of the Currency Committee of 1919, and has been crowned in the recent unprecedented sale of Reverse Councils.

CLOSING OF THE MINTS.

A Committee with Lord Herschell as Chairman was appointed to consider the urgent recommendations of the Government of India for closing the mints. The Committee with unusual promptness sanctioned the proposal recommending that gold be received at the mints for exchange with rupees at the rate of 1 s 4 d to the rupee and in payment of the Government dues at the treasuries at the same rate. Gold was not yet legal tender except at the treasuries. What the Treasury had so stoutly opposed in 1879 was at last done in 1893 excepting only that the gold currency was left out. The Government proceeded to disregard the consideration, as Jevons would say, that "the alarm and disturbance to trade that would be caused if Government tried to gain by reducing the amount of metal in coins while keeping up their value by limitation of issue would far more outweigh any profit that might be made by the operation." The simple expedient of a gold currency was ignored. The

essential economic truth, so ably advocated by the Treasury in 1879 that the rupee should have its money value equal to its intrinsic value was now set aside, and a notice was issued in June 1893 to commit in the words of Prof. Gide "a forgery." The coinage of rupees was stopped. The prospective cessation of Indian demand for silver caused anxiety in other silver markets, and the United States of America promptly repealed its own Sherman Act. The limitation of the Secretary of State's drawings induced huge purchases of silver on private account because now the raising of the money value of the rupee created an apparent fall in the value of silver. The exchange rose temporarily but could not be maintained and fell further even than before till in 1894-95 the average rate was 13. 1d to the rupee. The limitation of rupee coinage was made more drastic on Government account also, in fact there was a net contraction of about 4 lakhs of rupees between 1894-97, and the exchange began to recover till it reached the official rate in 1898, but at what price? Mr. A. Dhari quotes Mr. Merwanjee Rustomjee as saying "The stringency of the money market" (in 1898) "was so severe that it was impossible to sell Government paper or get advances upon it.....It was a terrible state of affairs and would be intolerable in London for a day money rose to an

unprecedented high rate of interest ranging from 13 p. c. to 24 p. c. per annum on the best securities." Even the Presidency Bank rates rose to 13 p. c. in 1898. The result of such a severe stringency would be a fall in the value of commodities and a demand for exports, or for council bills to finance them. On account of this demand the exchange established itself in 1898 which year saw the net coinage of 38 lakhs of rupees in addition to the recoinage of 61 lakhs which was a phenomenal change in view of the net contraction of about 7 lakhs of rupees in the previous year. Mr. Findlay Shirras reaches the conclusion that in the period 1893-1900, "while the volume of active circulation decreased by about 4 p. c." or "if the circulation of currency notes and the amount of cheques passing through the clearing houses be included, the total shows an increase of about 21 p. c. only as against 39 p. c. in the growth of business." This was when money was so scarce! Did or did not India suffer a loss by this policy? Would not the growth of business have been more if instead of this artificial increase of rupee's value with all its uncertainties and disturbances a simple gold currency had been adopted? Money does not like to be idle and the normal amount of circulation with the stability of gold would naturally have led to a greater activity in business. These facts will be interesting when

compared with the present parallel of a stringent money market though due to a different and a more mischievous cause - the unnecessary and the unjustified sale of Reverse Councils. In the meantime the Government of India had again proposed a gold currency in 1897 meeting a rejection at the hands of the Home Government. But the rise and fall of the rupee exchange even after the closing of the mints made it very necessary to re-examine the whole position and to devise ways of establishing the gold standard more firmly. Schemes for establishing gold standard without a gold currency associated with the names of Mr. Lindsay and Sir Lesly Probyn had come into the field and claimed examination. Accordingly what is known as the

FOWLER COMMITTEE

was appointed in 1898 to examine the whole question. The Committee reported in 1899 recommending that the British sovereigns be made legal tender and current coin in India, and that with a view of introducing an effective gold currency no fresh rupees be coined till an appreciable portion of the currency consisted of gold, and that the mint be opened to the free coinage of gold, and that out of the profits of the rupee coinage a gold reserve be built up so that

“ the Government of India might, if the exchange showed a tendency to fall below specie point, remit to England a portion of the gold which it may hold, a corresponding reduction being made in the drawings of the Secretary of State.” The Committee came to the conclusion that India was in every way fit for a gold currency. It will be noted in the above that while recommending the building of a gold reserve the Committee contemplated keeping it in India and remitting gold from it to London in case of necessity. The gold standard Reserve that was built later on was in direct contradiction with the above recommendation. Gold was declared legal tender after about 64 years of exclusion; but while the mints were kept closed to free rupee coinage, free coinage of gold was not sanctioned. The Government of India made proposals for the establishment of a gold mint at Bombay but the Treasury with its usual tenacity set its face hard against the proposal, and disapproved of the very idea of the introduction of a gold currency in India. The scheme was at last weakly abandoned by the Government of India. It was most conveniently thought that it was sufficient for introducing a gold currency in India to import sovereigns into India. It will be seen therefore that the purpose of the Committee's recommendations was totally defeated. Gold was not minted in India, and so

could not possibly be a popular element of currency. Nobody would like to go the whole length from India to England for getting his gold coined. Indeed even this import of gold and sovereigns was restricted, as much as the Government could find it possible to do, to imports for the purposes of arts and industries by the Secretary of State's purchasing sovereigns enroute for India from Egypt or Australia by selling rupee drafts on the Government of India, himself getting payment with these sovereigns in London. Another method of keeping out gold from India was selling Council bills at rates below specie-exporting point at London. This was clearly unauthorised and unjustified, because the purpose of these Council bills was only to keep the Secretary of State in funds to pay the Home-Charges on account of India. His selling bills in excess of this amount and that also at a rate below the export specie point was therefore not at all legitimate, and had the effect of inducing those people who intended to import gold to postpone such intentions, and of accumulating Indian funds in England, and of causing the incessant coinage and issue of rupees in India.

It is said that in the year 1900, gold was tried to be forced into circulation, but it returned to the treasuries and even reflected upon the note circulation. But under what circumstances ?

(1) The 1st. and the most essential thing for a currency, an open mint, was not given to India and naturally rupee still remained the only measure of value. Had there been a mint people would have got there own gold minted and the currency basis could have become gold.

(2) Silver was rising in price in relation to gold. Thus according to Mr. Shirras the average price of silver was in 1899-26½d per oz. in 1900-27½ d per oz. and in 1901-28½d per oz. How could people be expected to accept the less valuable metal without the guarantee of an open mint. It was the policy over again of forcing gold into circulation when cheap. But as naturally people would pay back to the treasuries the cheaper metal. As there was no open mint no fresh supplies of gold could be in circulation after this return and so the currency remained in silver.

(3) The scarcity of the rupees added to their rising intrinsic value and so people would naturally keep back rupees and pay in gold to the treasuries. Gold being legal tender now the tactics of 1853 could not be repeated and a sort of rupee crisis arose; sovereigns went to a discount. Notes, being expressed as payable in rupees but paid in less valuable sovereigns, their circulation would naturally be at a discount also.

There is one very curious point in this connection. The Fowler Committee recommended that the Government of India should not accept any obligation to pay gold for rupees, and the Government also approved of the idea because of the otherwise huge liability that would have had to be undertaken. There would have been a huge liability only when the people would have been eager to change rupees into gold. If this eagerness was expected by the Government then was the return of sovereigns to treasuries in 1900 and 1901 due to a sudden change of the psychology of the people? If so then was this sudden change a matter of caprice and whim, or was it based on some reasonable grounds? And so since 1900 this generous attempt of the Government has not been repeated.

There is another interesting point to be noted in connection with these recommendations viz. the development of the Gold Standard Reserve.

The committee in effect rejected the schemes of Mr. Lindsay and Sir Lesly Probyn in as much as they recommended a gold currency and a gold mint, which though nominally accepted were not given effect to. The other recommendation of keeping a gold reserve differed from Mr. Lindsay's scheme in as much as the latter proposed a reserve to be built up by borrowing and to be kept in London. In this matter also although the Committee's recommen-

dation was apparently accepted but Mr. Lindsay's proposal of keeping the reserve in London was adopted, indeed so much so that in 1905 the policy of buying sovereigns enroute for India was initiated. With the development of the gold standard reserve the currency policy of the Government of India resolved into this: exchange was fixed at 16 d to the rupee, to keep up this rate the Government would be willing, if the exchange should fall lower than the export specie point from India on account of a decrease of Indian exports and a trade balance against India, to sell Sterling drafts in India on the Secretary of State at the official exchange rate thus providing Indian importers with a means of remittance and so keeping down Sterling exchange in India, while at the same time decreasing the supply of bills on India in London (by stopping the Secretary of State's Council bills) and so keeping up the rupee exchange there, besides contracting the currency and so inducing exports. In such a case the Secretary of State meets his necessary expenses from the Indian reserves in London. Such occasions however are extremely scarce, and normally India exports hugely in excess of her imports including even the gold and silver imported as a commodity for arts and industries. This excess is ordinarily even more than necessary to pay off the Secretary of State's Home charges, but the Secretary sells

Council drafts on India for practically the whole of this excess, which is thus paid to India in silver rupees instead of the international currency, gold. For this purpose reserves in England are kept under the denominations of the Gold Standard Reserve, and the Paper Currency Reserve in London. The rise of this latter institution also is not without some interest.

In 1898 when due to the small coinage of the previous years, as well as due to the great internal demand for currency, the rupee balances and reserves of the Government fell, the Government of India took power under the Gold Notes Act to issue notes against gold received in London in payment for council bills. The utility of this measure to the London money market was soon found out, and the temporary Act was given a longer lease of life. In 1900 it was extended for the purpose of providing resources for the purchase of silver for coinage in India, and then a new use of the reserve came into being, the utilization of the reserve for keeping up the exchange as a 1st. line of defence before the Gold Standard Reserve should be taxed. Thus the reserve kept as a security against the note circulation of India has been turned to altogether different uses outside India itself.

Indeed in 1906 it was even remarked by the Secretary of State, while objecting to the purchase of

silver from the resources of this reserve, that gold in this reserve was "of considerable advantage to India as helping to maintain confidence in the permanence of the Gold Standard and in the stability of the exchange value of the rupee." Thus the primary use of the reserve became the maintenance of exchange and not the redemption of the currency notes, and so silver for the huge coinages of the years 1906-07--08 had to be purchased from treasury balances accumulated through selling more than necessary council bills.

THE CRISIS OF 1907—08.

Only after about 9 years of the stabilisation of exchange a severe trial occurred in the year 1907—08. In the years 1905--06, 1906--07 the great demand for rupees had made the Government coin huge quantities of silver, and the Government continued doing so in 1907-08 also in anticipation of a similar demand for rupees in that year. But now there was a reaction. The monsoon also was defective, production less and prices high. At the same time there was a crisis in America and gold began to be withdrawn from London, the rate of the Bank of England rose, funds for financing exports from India became scarce. The rupee exchange fell to about Rs. 3 $\frac{1}{8}$ d (Shirras page 207). Demand for gold and reverse drafts rose in India. These reverse drafts had to be met from the

reduced (because of the heavy purchases of silver) Sterling resources in London. More than 8 millions of sterling had to be withdrawn from the Gold Standard Reserve. As most of the reserve is kept in the form of securities, these had to be realised at an immense loss to the people of India. The Government of India proposed that sterling resources in London be kept in a more liquid form, and a greater quantity of gold be allowed to be kept in India. The Secretary of State however did not agree excepting that 1 million £ more would be invested in short term loans to approved persons or be deposited in Banks. As to the second point he intended to revive the purchase of sovereigns enroute to India which had been suspended owing to the crisis !

While all this was going on the declared ideal of the Indian currency system continued to be a gold currency and the Government in 1910 looked confidently to the time which "will obliterate all the mistakes, all the inconveniences, all the artificialities, of our present position." The matter was again forced to a head in 1911 by a resolution of Sir Vithaldass Thackersey in the Imperial Council in favour of a gold currency and a gold mint. The Government of India promised to press the matter with the Secretary of State, and performed their promise but the Treasury was irreconcilable.

THE CHAMBERLAIN COMMISSION

was appointed in 1913 and pending its report even the proposal of the Government of India for coining a distinctive Indian coin independantly of the British mints was left open.

The commission reported in 1914. It was of opinion that the Secretary of State sometimes sold Council bills at unduly low rates even when he did not require funds, and thought that the Secretary of State should sell only such an amount of bills as be necessary to put him in funds for his purposes. By following this recommendation direct import of gold into India would have been encouraged in payment for the exports in excess over the requirements of Home Charges. This would have been clearly against the other recommendation of the commission, for in spite of overwhelming evidence to the contrary it declared that India neither required nor desired gold currency and so a gold mint was useless for India, but that a gold mint might be established, if Indian sentiment demanded it. What a curious logic ! A gold mint might be established though a gold currency should not be established. If a desire expressed by the people continuously for 79 years, (for most of which period even the government on the spot supported it) was not a sufficient indication of the want of a gold currency to the commission, what else could be ? However the

Commission set the question of a gold currency at rest and boldly declared for the instable gold-exchange standard. It also recommended a change of the financial year from 1st. April to November 1st or January 1st. Now the Secretary of State borrows in the beginning of the calendar year when he does not clearly know what the next budget is going to require. Thus 3,000,000 £ were unnecessarily raised in April 1912 in "very unfavourable" market conditions. In addition to these several minor recommendations were made. Shortly after the report, however, the great European War broke out.

Sir M. de P. Webb had already shown in his "Advance India" that gold had become increasingly popular in spite of "the wait and see" policy of the Government and in his evidence before the commission he asserted that 40,000,000, £ were in circulation. With the advent of war a great demand for gold rose in the redemption of currency notes till the Government had to stop all issue of gold. Sovereigns reached a premium of even Rs5/- per sovereign or of about 33%. The demand for Reverse drafts again taxed the sterling resources in London and repeated the lesson of the importance of fluid gold resources that was given in 1907-08. On 29th June 1917 the Government took power to acquire all imported gold; on 11th July a similar

power in respect of silver was taken, and then private import of silver was altogether prohibited on 3rd. September 1917. On 17th July a Simla message announced that the Secretary of State was obliged to reduce the sale of Council bills. The Indian produce was greatly in demand for war purposes, but the Secretary of State would not sell sufficient Council bills to avoid taxing too much the Indian rupee resources, and would not allow gold also to come in. The result would be the great increase in demand for Council bills and a rise in the value of the rupee in view of the scarcity of the bills. But the Government sold bills practically at the same rate. So rupees were unduly cheap to foreigners while the scarcity of treasure in India increased the value of the rupees tending to keep down the prices. The result was that Indian exports rose in value by about 50% only while the rise in prices of imports was of about 168% (Shirras) between 1914 and 1919. Not only was India put to this loss by this artificial policy of exchange, but the fact of the Secretary of State's declining to sell sufficient Council bills and at the same time not allowing private imports of gold and silver also kept the trade balance accumulating in favour of India. Indeed if India a belligerent country had as free choice in her currency policy as the other belligerent country United States, then

India also might have become a serious competitor for the position of the gold market of the world for India was one of the largest individual suppliers of war materials to the Allies. The Report of the Committee of 1919—which will be treated shortly—also is forced to observe in para 21 that “The limitation of the amount of Council drafts at a time when the demand for remittance to India was exceptionally strong and no adequate alternative method of remittance was available led to a divergence between the market rate of exchange and the rate at which the drafts were sold” But for proper financing of exports of war materials this was not allowed to continue and Council drafts “were sold at a fixed rate,” the sale being “confined to banks and firms on the “Approved List” which included the chief exchange banks and a few large purchasers of drafts” Then these banks and firms had to do business with third parties “at prescribed rates,” and to confine their resources to articles of military importance. At the same time firms engaged in Indian trade were appealed to conduct their operations through these Exchange Banks, which were themselves insured against a rise of the exchange, and thus “the market rate of exchange was maintained near the rate at which Council drafts were sold.” And when the Armistice was agreed to, and the insuring guarantee terminated “a considerable business was transacted

between importers and exporters direct at rates appreciably higher than the rate for Council Drafts." Such was the artificial control of poor India's currency. It would be retorted that India was not neutral. No, but Australia, Canada, Africa were neutrals ! Why was not a similar artificial control exercised over their exchange and trade ? Besides as the Indian Merchants' Chamber and Bureau, Bombay, observed in their address dated 3rd April, 1921 to the new Viceroy "Indian wheat and other articles were acquired compulsorily by means of control and paid for at a price lower than the world price."

In spite of this however the war had another lesson to teach the authorities. Just as the neglect of the development of the man-power of India by Britain forced her to appeal to the United States, so the neglect of the gold money power of India forced England to go a begging to the United States of America for silver. In 1918 a severe silver crisis arose on account of the huge demand for rupees. A gold mint—which was so long denied to the people—was opened at Bombay for coining Mohurs to be put into circulation in the place of rupees, and at the same time United States was asked to help in the matter. The States agreed to sell to India 200 million ounces of silver under the Pittman Act of 1918 with a view -- as stated in the preamble of the Act -- "to

conserve the gold supply of the United States; to permit the settlement in silver of trade balances adverse to the United States;" It is curious that the Government did not ask for gold. But they were in a hurry, negotiations for gold would have taken more time, would have induced the States to draw more gold from Europe and lastly they were not very anxious to give India gold more than the amount it was impossible to keep back. True that there was a premium on gold, but gold was thus more valuable in terms of silver or other currency not necessarily in terms of commodities. India would have got the value of her commodities in gold but her customers might have been put to some cost in finding gold. This cost would not have limited demand for India's goods, for war needs do not wait. On the contrary various sorts of export restrictions and licences had to be instituted. Why should United States settle the trade balance against herself in silver, and why should India by the same act receive her favourable trade balance in silver ? The United States should not pay gold although it would have settled the trade balance against her at a favourable rate, and India should refuse to receive gold which was more valuable than silver because of the premium. The States conserve gold supply and India forbids its incoming ! - So the gold mint was again closed

when the crisis was relieved by the generosity of the States, as it was not a mint for the people but for the Government. The purchase was a huge single deal and the price of silver rose at once, the exchange rose also, as the Government was obliged to keep the exchange rate at a point higher than the intrinsic value of the rupee. With the removal of control over silver in United States the exchange soared to giddy heights. The experiences of the war were sufficiently startling and disconcerting to force a reexamination of the currency position. Within nine years of the crisis of 1907-08 two more crises occurred. In the 1st. of 1914-15 the exchange even reached the position of 1s 3½d to the rupee while in the other period of 1917-19 it rose far above the prewar rate. Consequently in 1919 the

BABINGTON COMMITTEE

was appointed to consider the whole position and to make recommendations "generally as to the policy that should be pursued with a view to meeting the requirements of trade, to maintaining a satisfactory monetary circulation" but "to ensuring a stable gold exchange standard." The question of a gold currency was out of its province, the commission of 1913 had set the seal upon it, and the members of the Fowler Committee of 1893-99 were inexperienced people, and so in view of the high authority of the Chamberlain

Commission the system must be maintained in spite of its so frequent break downs, and in spite of its highly injurious economic effects.

Just as in the words of Sir Sankaran Nair, Member of the Executive Council of the Viceroy "Before the Mutiny her industries were by deliberate policy of active discouragement in India, and by prohibitive duties in England destroyed" so was the gold currency of India killed deliberately. Similarly as after the Mutiny the Government of India were more or less for the assistance and protection of Indian industries but were powerless in face of the opposition in England, so in currency policy the British interests have kept out gold from India. Now again the proposed policy of Fiscal Preference completes the parallel with the new exchange policy. Indeed to quote again Sir Sankaran Nair "The general policy of the subordination of India to English Commercial interests has since continued to the present day." So says a person who happened to be in the secrets of the Government.

The report of the Currency Committee of 1919 is in many respects an important document. After dealing with the artificial control of exchange during war in para 21 discussed above, and dilating upon the importance of a stable exchange the Committee very aptly observes in para 35. "Whatever the evils and inconveniences of instability may be, they are-

increased if the movements of exchange are brought about not by the automatic action of economic causes, but by administrative acts. The commercial community are prepared to deal with fluctuations in exchange as well as with fluctuations in the other elements entering into a transaction, and to provide against any risks that may arise; but they feel that if official action intervenes to interpret the play of natural forces and to give effect to them, an element of uncertainty is introduced which is beyond their reckoning. However complete the integrity, and however great the intelligence on which official action is based, an automatic system, which does not depend upon such action for its operation is greatly to be preferred." There could not be a more conclusive condemnation of the very principle of the Indian policy. Such a remark would have led one to expect a recommendation of a free gold currency, but such a thing was excluded from the very terms of reference and so the Committee have to content themselves with a finding "to restore the automatic working that characterised the Indian currency system in the past."

The Committee reject the proposals of reduced fineness of the rupee, or the issue of 2 or 3 rupee coins of a lower silver value as well as that of a nickel rupee, because such a course would drive out existing rupees, tax the Government's minting resources to the utmost, and would probably affect

also the credit and the note-circulation of the Government. Partial inconvertibility of note issue also is dangerous, although such inconvertibility was reached—as Mr Dalal points out—when cashing facilities were withdrawn, and restrictions over movements of specie were imposed, yet to sanction it as a principle is likely to place a dangerous weapon in the hands of the Government. Therefore they propose the only alternative, that of raising the exchange value of the rupee. They recognise that such raising is likely to have at first the effect of checking exports and encouraging imports, but such effects will be transitory till wages and costs of production readjust themselves to changed conditions. The Committee believes that its affect on Indian industries also will not be very much injurious 1stly because the cost of imported machinery will be decreased encouraging the establishment of new industries, 2ndly because European cost of production has increased greatly, and 3rdly because a high rate of exchange will lower prices in India, and so while benefitting the consumers, it will also reduce the cost of raw materials to manufacturers. On all these points we shall shortly join issue with the Committee. The Committee go on further to point out that the rise in exchange will reduce the burden of Home Charges so much indeed that the loss on the

reevaluation of securities in England will be made up in about three years. The particular rate of exchange is decided upon in view of the fact that the Pittman Act of America provides for the purchase by the States of state-produced silver at 1 dollar per ounce and so for some years to come, even if Mexico resumes its former rate of production, the price of silver will not fall below this rate—an expectation so soon after falsified. This rate of exchange - 2 S to the rupee - is further linked not to the sterling (which is represented by paper) but to actual gold because:-

(1) Else the rupee will suffer from the depreciation of sterling.

(2) The price of silver in sterling will rise or fall with gold in relation with sterling, and linking rupee with sterling will introduce the complication of three values viz: of silver, sterling and gold.

(3) Linking with sterling would make the exchange too high when the sterling recovers its gold value.

(The last and the most important reason being)

(4) That both the rupee and the sovereign are to remain legal tender and current coins, and so their inter-relation should be fixed, and linking with sterling would have made this inter-relation between the two standards variable which is not desirable. This is specially important because the

Committee recommend a free import of gold and silver, and a gold mint with free coinage of gold subject, of course, to a coinage charge. This last reason should be very carefully noted, for we shall presently show that while the Government has taken all the bad points of the report very promptly it has neglected studiously all the good points.

The Committee very frankly admit in para 33 that "the system was not proof against a great rise in the value of silver," neither it can be a proof against a great fall in the price of silver, because any great difference is impossible to make up artificially either way, and both statements have been amply proved by recent developments. However to meet a situation of a still further rise of silver in spite of the high exchange they recommend in para 59 that "the Government might diminish the demands upon them for currency by reducing as far as possible the sale of Council bills, relying on the free import of gold and silver, which we recommend, to provide alternative means of remittance. They would naturally endeavour to meet the demands for metallic currency by the use of gold, and abstain as far as possible from purchasing silver....If, in their judgment, it should be absolutely necessary to purchase silver, they should be prepared to purchase even at a price such that rupees would be coined at a loss" Evidently

reverse drafts the newly found specific of the Government of India - did not occur to the Committee as an appropriate solution of such a problem to be practised at a time when silver should be so high that the exchange be far above 2S, and so should not require any maintenance by Reverse Councils. In para 60 answering to the objection that the apparent cheapness of sovereigns would lead to a great absorption of gold like that of silver in 1893 they are of opinion that "in the present conditions of the supply of the two metals, and the demand for them" they do not regard it "necessarily as an evil."

Indeed in para 63 of the report they vigorously defend the absorption of gold by India, and consider that in view of the population, the habits, customs, history, and education of the country the absorption of gold has not been at all excessive. This is a most valuable admission proceeding from such a high authority. They recognise India's right in para 64 to demand payment for exports in whatever form she likes, but recommend the investing of her capital in foreign countries both to economise gold and to secure further profit to herself. They recommend therefore the passing of legislation to effect the new rate, and the removal of all restrictions over imports of gold.

Paragraphs 66 and 67 of the report are very

interesting reading. The Committee, struggling within the limitations of its terms of reference, agrees in theory with the Chamberlain Commission in considering gold to be undesirable for internal circulation, considers the situation to have changed since then and in view of the experience of 1918 advises moderate issues of gold recommending at the same time the re-opening of the Bombay gold mint to make the gold currency available not only for the Government but also for the receipt of gold bullion from the public for coinage. They further recommend in para 68 that "the obligation to give rupees for sovereigns be withdrawn" If these proposals would not introduce a gold currency what would? Because in this way gold would be freely minted for currency and the danger of too much rupee coinage remaining in circulation would be provided for by withdrawing this "obligation" and foreign merchants also would have to deal in terms of sovereigns and not rupees which they may or may not get from the treasuries. Speaking about silver they disapprove of restrictions on silver import, because scarcity of gold and silver, the import duty on silver increasing its price in India over the London price, and the social necessity for ornaments, made the melting of rupees possible in spite of the restrictions, and the Secretary of State had to purchase more and more silver in an expensive way.

And so they recommend the removal of these restrictions also as well as of the import duty unless "the fiscal position demands its retention"—this fiscal position is the prison within which India is reducing herself away. Although they do not admit that this duty has harmed the poor, but they recognise the feeling that it prevents Bombay from being the world's silver market. As to export of silver the restrictions should be retained till the rupee is over-valued excepting that spare silver mined in India may be exported under licenses.

Paper currency reserve (para 81) "exists primarily for the redemption of notes, and the proper place for holding the greater part of the reserve must therefore be in India where the notes may have to be met..... The silver reserves should" (excepting silver under purchase or in the course of shipment) "be normally held in India."

The gold also in the paper Currency Reserve should normally be held in India ; but some Paper Currency Gold "may at times be held in London, either because it has been purchased there and is awaiting shipment, or because it is held in anticipation of its use in payment for purchases of silver." Of the securities Indian securities should be held in India and sterling securities should be held in the United Kingdom where they would be redeemable or realisable in event the of need." But

in such an event of need the securities are always realised at a loss, and this recommendation can be tolerable only in view of the fact that the other recommendations weaken the position of the gold exchange standard by keeping the Paper Currency Reserve mainly in India as well as a portion of the Gold Standard Reserve, and otherwise tend to the realisation of the gold currency, thus eliminating the need itself. But the recommendation that 20 crores be invested in Indian securities and the rest in securities of "other Governments comprised within the British Empire" is most objectionable because it proposes to continue the system whereby Indian money has been invested in the securities of a colony which drove Indian women to a life of shame to pay a disgraceful poll-tax to fill the coffers of the State, a state which deprived Indian ladies married according to their religion of rights as wives, which enclosed Indians within electrified barbed wire enclosures and inflicted numerous barbarous and humiliating punishments and conditions of life; in those of a colony which denies to Indian settlers the ordinary rights of family life, forbids their entry into the sacred land and deprives them of the fruits of their own industry. So long as East Africa was under Germany Indians were valued as they built up the country; but now that it has come under British protection agitation has been

begun for the differential treatment of Indians. India must not retaliate but must even help these countries with its funds, and when next India gets spare money it will be lent to East Africa which is earning the right to the gratitude of India.

Thus according to the figures given by the Committee itself Transvaal stock to the value of, £ 1,092,023 was held in the Gold Standard Reserve on 30th Nov. 1919. About the location of this reserve, although its proper place is in London, yet in deference to Indian sentiment which in currency matters "is an asset of great value" they recommend that part of the gold but not exceeding half of the total gold in this reserve should be kept in India, and should be issued only for the purposes of export, foreign remittance being provided by such export, or by a transfer to Paper Currency Reserve of this gold against a release of these assets in London. On 30th Nov. 1919 out of the total 37,438,317 £ in this reserve only 27,093 £ were in cash, the remaining being in securities. And so this recommendation is important only in view of the other recommendation that actual gold should be built up to £15,000,000 and thereafter half the reserve should be in gold. But in that case there will be another attack on the present policy because the paper currency assets proposed to be held in London would consist mostly of securities only and

would not be easily or smoothly available to meet the needs of exchange.

Speaking about Council drafts the Committee consider that the Secretary of State should not sell beyond his requirements unless more gold is being imported in India than is absorbed, and then also he should sell additional bills subject to the consideration that the location of the reserves as above recommended is not disturbed. (para 62)

About Reverse Councils the Committee "recommend that the Government of India should be authorised to announce without previous reference to the Secretary of State on each occasion, their readiness to sell weekly a stated amount of Reverse Councils (including telegraphic transfers) during periods of exchange weakness" and certainly not in a period of an over-strong exchange as has been done actually.

With regard to Paper Currency Reserve the Committee recommends a proportional minimum reserve of 40% of the gross circulation. The impression left by the report is that while feeling acutely the limitations of the terms of reference the Committee make a flank attack upon the Gold Exchange Standard, and try for the introduction of a gold currency, by free import of gold and a gold mint, and even provide for the ultimate reduction of the rupee to a subsidiary coin by withdrawing the obli-

gation of giving rupees in exchange for gold thus preventing their amount in circulation from being increased while the contraction of their circulation should go on by the payments to the Government, but at the same time instead of proposing a low rate of exchange with a view to demonetisation of silver and automatic establishment of a gold currency, they propose a high rate of exchange to enable the British industries to recover from the effects of war, and thus to reconquer the lost markets.

To this report an important minority report is attached by Mr. Dadiba Merwanjee Dalal, the Indian Member. Mr. Dalal in the 1st. place charges the Government of India with having itself increased the price of silver by unnecessarily large purchases. Thus as shown in para 23 of the main report the Government purchased silver in

1915 - 16	8,636,000	standard ounces.
1916 - 17	124,535,000	" "
1917 - 18	70,923,000	" "
1918 - 19	258,928,000	" "
1919 to 30 Nov.)	74,983,000	" "

less than 5 years 538,005,000 standard ounces.

As to the question of meeting the monetary demands he rightly considers that the best way was for the British Government to come in the Indian loan market to float its loans to finance its

requirements, as was done in America. As the Indian exports in war time were controlled for the purposes of the war, this method would have provided the currency needs to a very great extent, and would have avoided the necessity of watering the paper currency reserve to the extent to which it was done. If the Paper Currency Reserve had not been watered so much then it would have enabled silver to be exported from India by the melting of rupees and so India instead of being a potential buyer would have become a potential seller and the price of silver would not have risen so much. It will have been noticed that the Government suddenly increased their purchases of silver in 1916-17, and in that year the price of silver began to rise at a rapid rate. If the Government had sold Council bills only for its requirements, and for military purposes loans on behalf of the British Government had been raised rupee coinage would not have been so much in demand and the crisis of 1918 might have been avoided, because the coins of the loans would have come from the country and would have been reintroduced into circulation in payments for war supplies and so no fresh coinage would have been necessary for the purpose. Further even with the rise of the price of silver the Government had absolutely no right to change the legally established rates between

sovereign and rupee by arbitrary executive acts especially in view of the fact that other expedients detailed below were open to it. This raising of exchange was all the more objectionable because a large portion of it was effected after the war had ended when war necessities did not exist and the market of gold had become free. Then the Government could have purchased gold, issued gold and allowed silver to be exported. But as Mr. Dalal observes in his para 29 "the crux of the whole situation" is "the great importance attached by the authorities to the continued use of silver in settling India's trade balance even though the use of silver can not be continued for the present without breaking the standard ratio" Indian exports of silver have all along, before the war also, been restricted because of the import duty which was not refunded on export; India possesses about 3, 000, 000, 000 to 4, 000, 000, 000 rupees and so some export therefrom would not have been injurious especially in view of the fact that foreign buying power for silver was limited, while America would buy silver of its own production only. It is the unhealthy Indian demand for silver which enabled a producing country to dictate terms to India by a threat of the purchase by its own government merely for the purpose of keeping up the price. Mr. Dalal remarks rightly

that "The mere fact of Indian sales would have broken the strength of the silver market." The United States of America have adopted this method by offering to sell silver when its price goes beyond the value of their silver coinage.

Other ways of avoiding the rise of exchange were stopping the sale of Council bills which would have necessitated the settling of India's trade balance in other ways ; yet another method was to tax all exports by a duty sufficient to cover more than the additional cost of coining rupees. This would have decreased the demand for exports and so for rupees, export of silver being of course prohibited. Besides whatever balance would have had to be paid in silver, the silver would have been purchased by the Government with the help of the proceeds of this duty and so there would not have been any loss on rupee coinage. But this would have either restricted exports to Britain or would have obliged Britain to pay more for those exports, both of these situations were unpalatable to the authorities which, as we have seen above, rather kept the prices artificially low by regulating exchange, and by instituting systems of control over important articles of exports.

Another way would have been the issue of a debased two or threerupree coin, and Mr. Dalal is right in preferring this to the raising of exchange because although by so doing silver rupees would

have been driven out of circulation they would have gone to increase the supply of silver to lower its value (because for the new currency less silver than so released would have been required), while the Government would have made profits on the coinage.

Mr. Dalal very tellingly observes in para 44 that "one of the advantages claimed in former years for issuing rupees instead of sovereigns was that it was economical. The rise in the price of silver took away that advantage." Still sovereigns were not for India.

As to the question of meeting trade requirements Mr. Dalal very properly retorts "It is very easy to exaggerate the importance of meeting the requirements of trade. Trade elsewhere is accustomed to finding its requirements met without the active intervention of Governments by means of sales of Government bills. The usual and correct attitude of Governments is to provide machinery of coinage and to leave it to its own automatic action, except for the provision of subsidiary coins." So long as these Council bills are for Home Charges they are unobjectionable, but when in excess of them the real reason is not "so much to meet the convenience of trade as to retain the power of diverting payments of India's foreign balances from gold to silver."

The Governor of the Bank of England objected to hoarding of gold in India, but besides the fact that India is a subject country with no banking facilities, with social customs of wearing ornaments (which are present more or less every where), the currency system itself induces hoarding. The insecurity of rupee currency, the fact of its being a token coin, makes people eager to possess gold. The remedy is the encouragement of Indian investments abroad, but for this a stable gold currency is necessary for the people are not likely to risk their money under the present instable system.

The Gold Standard Reserve is a tax on the people, which would not be necessary in a gold currency, and it gives no commensurate advantage to India.

The proposed rate of exchange will disturb all relations of debtors and creditors and will harm the industries as well as the exports of the country and there is a danger of the trade balance turning against India. It has actually been so. Although it will lower rupee prices, but such lowering is questionable, besides the real cause of high prices, the inflation of the currencies of other countries will remain still.

The silver import duty besides harming consumers has led to restrict its export thus increasing the price of silver by keeping back a portion of the

supply. This should be removed at once. Mr. Dalal considers that banking facilities can be properly developed when the basis of credit, a sound currency system, is given to India.

Consequently Mr. Dalal recommends retention of the ratio of 15 Rs to 1£, unfettered imports and exports of gold and silver, opening of the gold mint in India, so long as the price of silver is high issue of a 2 rupee coin and a 8 anna piece with a lower proportion of silver as unlimited legal tenders, that nickel rupee and half rupee not to be introduced, Council bills to be sold only for Home Charges, proceeds of Reverse Councils to be kept apart for meeting council bills, currency notes to be printed in India, Indian Paper Currency Reserve in London to be transferred to India, and the use of one rupee currency notes to be discontinued.

Such was the latest official pronouncement of experts on the Indian Currency system which was so unfavourably received by the Indian press and the Indian banking and commercial circles. But what was the action taken by the Government upon the report ? The gold mint was not reopened. Restrictions on imports of gold were not to be removed but were sought to be extended indefinitely by "The Gold Import Act Amendment Bill" introduced in the Imperial Legislative Council with the purpose of Continuing "the present control on the import

of gold until such time as the internal price of gold has been reduced to the neighbourhood of the new exchange value of the rupees in terms of gold. It is not possible to fix any time limit within which this is likely to occur, but in order that the control may be removed when the opportunity arises it is proposed to take power in the bill to terminate the control on such date as the Governor-General-in-Council may notify" (Pioneer of 13th March 1920). Even when America was a free market for gold, India was not to import gold. The reason given was that the withdrawal of the control would have given rise to a large demand for Reverse Councils to import gold because of the internal premium on gold. But it was not necessary because if Reverse Councils could be bought for the purpose then rupees also could be profitably exported for the same object if the export restrictions on silver were withdrawn. This would have saved the sterling resources in England from being unduly taxed. It could not be said that the Government would have had to face a crisis like that of 1918 by following this policy because besides the huge coinage of 1918-19, in the year 1919-20 also 36, 62, 06 854 rupees had been coined, and the Treasury balances in India alone stood on 31st March 1920 at 26, 44, 55, 000 rupees. Moreover the amount of currency in circulation is enormous. Thus there

would have been no great danger if the rupees had been allowed to be exported. Besides where would these rupees have gone? They would have purchased gold which would have come into India and would have reduced the premium much sooner than the tedious red tape policy of the Government's doling out small amounts of gold at uncertain rates, which all the more increased the uncertainty and hunger of the market. Some of this gold would have got coined in the Indian Mint which should have been opened at the same time and would have thus supplied the pressing need of currency.

But this was not all. One recommendation of the Committee was acted upon. Rupee exchange was fixed in terms of gold. Sterling fell heavily and the rupee rose heavily in terms of sterling. Thus while rupee was linked with gold in theory, in practice gold was not provided to circulate freely with the rupee which was the essential reason of the Committee's recommendation. What was the result? Although the transactions were in sterling yet the rate was higher than it would have been if linked with sterling and so the effects of a rise of exchange were accentuated without the advantage of a gold currency. If gold had been allowed unrestricted entry than this rise of rupee in terms of sterling would have had some meaning as due to the natural reason of the scarcity of gold in England and its

currency in India. The rise of exchange has one beneficial effect at any rate, the reduction of Home Charges, but now a most curious thing happened.

REVERSE COUNCILS

were offered for sale at this artificial rate, so that whatever little advantage (though in itself more than balanced by other injuries) India might have derived, were turned into a huge additional loss to India, for now sterling could be had in London on very cheap rupee terms. Only one recommendation was adopted, and that also without its necessary accompaniments, and then it was used in a way which nobody could have thought possible. The country was amazed. The Indian Merchants' Chamber and Bureau of Bombay repeatedly addressed the Government. Protest meetings were held in Bombay and Madras. Strong resolutions were passed.

In the words of the Chairman of the Indian Merchants' Chamber and Bureau "The people of India had been clamouring for bread and had been given a stone." These Reverse Councils were inexplicable to the public because at the time rupee exchange was above the rate at which it was proposed to maintain it, there was a large trade balance in favour of India, and lastly there was the curious fact that the bank rate of exchange was about 3 d lower than the official rate, and some-

times reached a difference of even 5 d. The result has been terrible stringency of the money-market. They came at a time when money was already in demand for the payment of Government taxes and financing of exports, and came in the unprecedented amounts of £ 2,000,000, weekly too. According to the Pioneer of 26th April 1920 the Times of India correspondent reported that a large contraction of note circulation had caused a great scarcity of funds for moving exports from up-country, export bills were diminishing, bank rate was advancing, and demand for sterling bills on London was increasing (because of the speculative nature of the transaction clearly). Foreign holders of Indian securities were selling and capital was being exported. This tightness of the money market had a strange parallel in that of 1893-98. Then also a revolution in the rate of exchange had been effected which rate, as now, was immediately after broken, as a sign from Providence of the instability of the system. Then also the scarcity of money was intentionally created to raise the value of the rupee, but then unlike the present case, the reason for the policy was well known from the very first even to the public. A communique issued in the Leader of 26th February 1920 gives the present reason as the demand of war savings to go home. The communique notes the scarcity of money and proposes to purchase Indian

securities with the proceeds. Even if all the proceeds are so utilized the market may be relieved only to an extent because the purchase will not be all at once as that would raise the price of securities, but all the same the loss to India due to these Reverse bills will not be repaid. Why did these war savings want to go home all at once when there was a large rise of exchange? What prevented them from going away during the last five years? The need of money was as great as ever in India. The Times of India also was forced to remark (as given in the Leader of 27th June 1920). "The instability of the Indian exchange is mainly due to the policy which Government adopted on the recommendations of the Committee. At the time when the notification embodying the principal recommendations - of the Committee was put in force exchange was weak but there was no demand for Reverse Councils. The attempt of the authorities to raise exchange by five pence at one step, and then by eight pence to compensate for the fall in the American cross rate produced just the results which every capable financier with a knowledge of Indian conditions anticipated. It at once checked the export trade and gave a powerful stimulus to imports..... It at once set up a gigantic speculation in exchange. For months past the ordinary operations of commerce and industry have been

partially suspended in order that funds might be accumulated to gamble in exchange..... We have called it a gamble, but that is the wrong word; it was the systematic plundering of the Indian Exchequer..... Any fool with money could make more money when Government sold to the big tenderer who monopolised the supply of sterling bills, which could be converted the same day into rupees at a profit of from five pence a rupee upwards."

An interesting debate took place in the Imperial Council on 10th March 1920 (reported in the Pioneer of 13th March 1920) when the Hon. Mr. Sarma moved " (1) That the deficit during 1919-20 be reduced by six crores, the said sum being deducted from the loss on the sale of Reverse Councils shown in paragraph 152 of the explanatory memorandum, (2) That in "interest receipts" receipts in England be raised by £191,000 the decrease in the revised figures for 1919-20 provided for owing to an anticipated reduction in the amount of investments for meeting reverse drafts on London."

Mr. Hailey the Finance Member entered into an elaborate defence of the policy. Replying to the objection about the Government's selling Reverse drafts at a higher rate than the market rate he gave the following reasons:—

(1) Rupee has been linked with gold and not sterling. We have seen above the strange circumstances of this linking, which appears to have been only for the sale of reverse drafts.

(2) The rate should be high enough above the value of silver in the rupee so as to enable the Government to buy silver for coinage. When the Government had coined such huge sums already as we have seen where was the necessity for new coinage. It was rather contracting the circulation, and did not appear to be afraid of a high demand for rupees.

(3) A high rate of exchange will enable the Government to make beneficial settlements with the provinces on account of the gain from exchange. But surely in selling Reverse Councils there was no gain but a loss.

(4) A high rate of exchange will lower prices. This is true specially because the contraction of currency will increase the value of the rupee. But is this a defensible way of lowering prices ? Does the Government undertake to sell Reverse Councils whenever there is a rise of prices ? If it does then can it be any longer trusted with the financial interests of India ? This could not even affect the price of silver sufficiently, for rupees received were not exported to increase the supply of silver.

Mr. Hailey maintained that there was a trade demand for reverse remittance admitting however that "Part is a demand of persons who merely wish to send their savings to England" (why should Government give them unduely cheap pounds) "part may be no doubt an actual demand by speculators" (this is a valuable admission) "..... we have been hoping weekly to see the end of it, to see export bills come out and the tide turn the other way." How could the export bills come out when exports themselves did not, owing to the stringency of the money-market ? Whatever little trade demand for machinaries there might have been could be easily supplied by the exchange banks. Why should the Government and so the tax-payer bear the loss on account of the rich ? The Government can be called on to give reverse drafts only when the exchange lowers itself below the point at which the Government pledges itself to maintain it. Such a situation had not arisen. The Government's business is only the maintenance of exchange and not to act as bankers to merchants. Besides there was admittedly a favourable balance due to India, then why these additional remittances ?

He also maintained that if Reverse Councils were not sold then the divergence between the market rate of exchange and the rate of 2s to the

rupee, at which it was sought to establish the exchange, would have increased. But how could it be so ? Supposing the Government sold reverse bills at 2s 8d. to the rupee, and the banks at 2s 5d to the rupee, then had the Government withdrawn from the market, and there were a genuine trade demand for reverse drafts the demand for bank bills would have increased and the banks would have required greater price in rupees for these sterling bills, i. e. the rate would have been less than 2 s 5d or nearer the 2s rate. Is it increase of the divergence or the decrease of it ? The Government was rather intentionally postponing the day of stable exchange. The Hon. Member felt the weakness of his position when he said " I do not wish to press this point too far because the present divergence is so marked. On this point I will say no more at present than that we have kept the Secretary of State very fully informed of the feeling in India on the subject. We are in hopes that he will agree to the measure quite recently proposed by us which we believe will bring the two rates more closely together." He admitted that this divergence tended to induce people to make remittances earlier than they would otherwise have done, but maintained that the Currency Committee never implied that the market rate and the official rate could always coincide. True. But they can be different only when

the market rate is lower than the rate which the Government has pledged itself to maintain (which in the present case is 2 s.) and at such a time reverse drafts have to be sold to support the exchange. Such a situation, however, had not arisen because the market rate itself was far above the pledged rate, 2 s to the rupee.

Speaking about the loss due to the Reverse Councils the Finance Member maintained that the loss would be there even if they were not sold, because the securities in the Paper Currency Reserve would have had to be transferred to India and so the loss would have become apparent. He considered this loss the price which India paid for the immense advantages that India would gain from a high exchange in Home Charges and the lowering of prices. Now 1stly why was this loss of transfer increased by the transfer taking place at that rate. A better way would have been to withdraw the sale of Reverse Councils and allow the exchange to come down to 2 s. as explained above removing restrictions on the import of gold, and then selling the securities in London and transferring to India the gold proceeds, or even if India must not be allowed to receive gold, then affecting the transfer at the 2 s. rate. This additional loss at the rate at that time was absolutely uncalled

for. Moreover if a gold currency had been given to India at that favourable opportunity then even this loss would have been eliminated because the gold sale-proceeds of the securities (no longer required to support a gold exchange standard) in both the reserves in London could have been used in paying off India's national sterling debt in England, (thus not requiring any transfer to India at a loss by exchange) and placing in the Indian Paper Currency Reserve instead a special issue of the Indian Government bonds. As to the advantages of high exchange they are likely to be high prices of food grains and low wages. So far India has derived little advantage from the high exchange rate instituted in 1893, because if trade is prosperous in India, it means that exports of food stuffs and imports of luxuries have increased. This is not real prosperity. The physique, the duration of life, and the standard of living of the masses are the proper index of a country's prosperity, and India can not stand these tests.

Then the Hon. Mr. Hailey explained that Indian funds were blocked up in London and gold was not allowed to come out to India because of the war necessities and similar treatment was accorded to other dominions. But when these war necessities began, in 1835, or 1893, or 1899, or 1900, or 1913? Australia and Africa do not want gold from

England, it is England that derives her gold therefrom. Canada and most other colonies have already a gold currency and so their need was not so great as that of India, who was offered a favourable opportunity of adopting a gold currency by the great increase in the price of silver.

Mr. Hailey overlooked the great objection of the stringency of the money market altogether.

Then Mr. Hailey made an impassioned personal defence. But no body imputes dishonest motives. It is natural that one should understand and feel for those better with whom he is in constant contact and society. An Englishman cannot be expected to love India better than England, only he should give up the high sounding phrases about his solicitude for Indian interests, and should be more willing to make up for his deficiency by a better understanding of the Indian point of view. As a result of the debate the resolution was defeated by the ever present official majority and a deficit of 6 crores of rupees and a huge loss of interest was sanctioned through the sales of these indefensible Reverse Councils at a time when in the words of Mr. Sarma during 1919-20 "taking every month, they found a large excess of exports over imports, so that in no period was there a trade balance against India." But the sale of these Reverse Councils has not been altogether senseless. A press communique issued

in the Pioneer of 24th April 1920 says "To meet the situation created the Government of India increased their offers of Reverse Councils with a view to supporting exchange. In the interval which has since elapsed the large sale of Reverses and the marked recovery of the dollar-sterling exchange has brought into closer conformity the market rate of exchange and that based on the rupee equivalent of gold" and so "the Government of India have decided to revert in their weekly offers of Reverse Councils to the figure of 1 million which is that usually taken in the past on a demand for remittance arising." So then the limit of 2 millions weekly was not taken with regard to the demand for remittance, but was an artificial limit set for the purpose of supporting exchange. But which exchange? The Indian exchange did not require to be supported as has been shown above. The support given was to the dollar-sterling exchange. When the report of the Currency Committee was published there was a heavy fall in the dollar-sterling exchange. Reverse Councils were sold. Gold was released from Indian assets. The account with America was partly settled, and the dollar-sterling exchange recovered. The Indian fears that Indian funds in London might be considered to be England's war chest, have not been quite groundless as shown by these experiences of the war effects.

Was similar treatment accorded to other colonies and Dominions also ? The commissions and committees have come and gone. They have eaten up Indian funds but the policy of the Government is what it has been. Can India remain satisfied ?

Since then the price of silver has fallen in value. It even went below one dollar an ounce the limit prescribed by the Pittman Act of the United States. The rupee exchange also gradually fell to below the 2s rate, and the Government of India issued a Press Communique : "The Government of India announce that having regard to the fall in the market rate of sterling, the rates for Reverse Councils at the sale of 24th June, and at subsequent sales will be per rupee 1s. 11½d for immediates and 1s. 11¼d for deferreds, these being the rates which will ultimately hold when sterling once more returns to par with gold, at these rates 1 million will be sold on the 24th and weekly till further notice. " Thus the Government gave up the linking with gold and fixed the exchange in relation with sterling at the rate at which it proposed to stabilise the exchange in the end. At the same time the Government removed all restrictions over the import of gold, (when the danger of gold becoming the currency had decreased) a period of 21 days was given for the exchange of sovereigns into

rupees at the rate of 15 rupees at the treasuries, after this period they could be legal tender for Rs10 only, while during the moratorium they were not to be legal tender at all. Legislation also was passed to this effect in the next session of the Imperial Legislative Council. Even the silver import duty was abolished. But the thing essential for a gold currency a gold mint was still not given.

The sale of Reverse Councils, however, continued, and India suffered a loss of about 35 crores of rupees or about £ 25,000,000. Such a loss, a sale of about £ 55 millions of India's sterling assets was enough even for the Government of India. The exchange fell further in spite of it. The sales had ultimately to be stopped. But they had already prepared a crisis in the trade position of India. The raising of exchange rate had the inevitable effect of encouraging imports and discouraging exports. The Indian importers stimulated by a favourable exchange put large orders in England. The reaction from the decrease of imports during the war began to be felt. The British manufacturers also finding their goods not sufficiently saleable in the impoverished European markets began to execute the orders promptly and to dump their goods on India.

Between the ordering and the delivery of goods there was a serious fall in exchange. The Indian

merchants were faced with a very difficult position. The matter assumed sufficient proportion to attract the attention of the great Indian National Congress assembled at Nagpur in December 1920, and a strong resolution was passed: "Whereas His Majesty's Government and the Government of India by bringing about an unprecedented rise in sterling exchange and issuing reverse councils in wanton disregard of Indian opinion as expressed in the minority report of the Currency Committee to the enormous and serious loss of the Indian export trade, have pursued a ruinous policy conceived in the interest of British manufacturers with the result that Indian trade and commerce have been entirely unsettled and dislocated, while the British Treasury has been relieved of a substantial part of its indebtedness to India, and the British capitalists and manufacturers have been given enormous opportunities for dumping into this country goods which could not find their old markets in Germany and other countries, this Congress calls upon the British Treasury to make good this loss, and further declares that importers, merchants and dealers in British goods will be entirely justified in refusing to complete their contracts at the present rate of exchange.

Further this Congress appoints a Committee to be named by the All India Congress Committee to take steps to deal effectively with the situation."

(Report of the proceedings in the Leader of January 2, 1921) In the above the relief of the British Treasury is not quite clear. The British Treasury could pay only the same number of pounds whatever be their price in terms of rupees and whosoever be the payee unless the British Treasury's debt to India were in terms of rupees, but in that case a high exchange would have been detrimental to the British Treasury and not useful to it, for it would have had to pay a greater number of pounds for the same rupee debt. India no doubt suffered a huge loss to the benefit of England as we have seen, but the Treasury could not thereby be relieved of India's debt. Of course, the British Parliament as responsible for the Government of India is indirectly answerable for this loss. Sir Montagu de P. Webb remarks in an article in the February (1921) number of the Indian Review : "Alas in Indian currency matters, Commissions of experts propose, but some irresponsible autocrat at the India Office disposes..... Anouncing its intention of establishing a ten rupee sovereign the Government of India simultaneously offered pounds sterling for sale at seven rupees!! The demand for such cheap pounds was prodigious. Moreover as seven rupee pounds made British and American manufactured goods look very cheap in rupees enormous quantities of these goods — three

times as much as India needed—where ordered. These goods have now arrived and as India can not sell her surplus products in bankrupt Europe, yet has to paypounds sterling is going up daily.....Where will these extraordinary fluctuations end ? That is the question.”

The Native Piece-goods Merchants' Association of Bombay and other commercial organisations of India advised their members not to clear their bills unless exchange was fixed at 2s. to the rupee. The Finance Member of the Viceroy's Executive Council condemned this attitude. The East India Section of the London Chamber of Commerce with indent merchants interested in the Indian trade, the Executive Committee of the India Section of the Manchester Chamber of Commerce passed resolutions considering this attitude to be a violation of the sanctity of contracts and to be against business morality, and threatened that future trade relations with India will be seriously affected by such attitude of the Indian merchants. In the House of Commons Mr. Montagu, the Secretary of State for India, agreed entirely with “the strong criticisms” of the Finance Member made “at a meeting of the Associated Chambers of Commerce of India in January.” With the presentation of the new budget to the reformed Legislative Assembly the Indian

merchants were again charged with lack of "common commercial morality" and "ordinary commercial prudence." During the ensuing discussion Mr. Manmohandass Ramjee took strong exception to Mr. Hailey's remarks, and remarked that "the policy of the Government in the beginning was to support the exchange and thus they held out ~~hopes~~ to the merchants of the exchange not falling below 2s..... The commercial morality of India" was better "than that of any country in the world. A grandson would pay the liabilities of a grandfather even if there was no written compact."

On 17th March 1921 speaking in the Council of State on behalf of the Government on Mr. Kale's resolution for a fresh Currency Committee the Hon. Mr. Cook had at last to admit: "It was quite likely, if the truth were told, that responsibility lay at the doors of the exporters in the United Kingdom. After the Armistice after supplying all the European markets they flooded the Indian markets with goods on prewar orders" and also that "when they gave their indents the importers had every reason to expect that exchange would remain at 2 shillings." (Independant March 19, 1921) Lord Reading the new Viceroy replying to the address of the Indian Merchants Chamber and Burean, Bombay on 3rd April 1921

remarked "I do not suppose for a moment that there is ground for any suggestion of lack of commercial morality." That is the end of these wanton attacks. The "Leader" of March 13, 1921 in its editorial article makes some very pertinent remarks about this "morality." Says the "Leader:" "The first thing to note about these contracts is that they were purly one sided.....so as to cover any and every lapse of the other party.....
.....many manufacturers asked the indentors to raise their prices" (when prices were rising) "and when these were refused the sanctity of contracts now so much in the air was not even dreamed of and in face of the previously booked orders and indents the goods were sold to other parties at higher rates." The editor further remarks that the Indian merchant would have borne the loss if he "could do so without going into liquidation" for he has to bear double loss: to pay "the double of what he intended to pay, and has to get in return about 50 per cent less than what he thought he would get." In the words of Mr. Manmohandasa Ramjee M. L. A. under the circumstances "picce goods merchants were faced with a hundred per cent loss and it was because of that they had resolved to make payments only when exchange rose to two shillings."

The Indian associations are still firm in their

attitude. The Committee appointed by the Congress supports them. The Government is immovable. When there was no such necessity the Government did sell Reverse Councils up to 55 millions sterling and frittered away their resources. Consequently now, when there is a real demand for drafts on London they are naturally unable to hold up to their policy. That the Indian merchants were misled by the official policy needs no further argument. That the Government should refuse to maintain the exchange at the rate at which they have pledged themselves to do it and at which they have made the sovereign a legal tender by legislation is the severest condemnation of the whole system. In the opinion of the Government "the only safe policy" just at present is "to have no policy." A serious situation has arisen. The import trade also is suffering.

But all this trouble and rigid refusal of the Government to have any policy has produced other results. Replying to Mr. Clough Mr. Montagu stated that "the loss due to the fall in Exchange coupled with the persistently low price for cotton piece goods afforded strong inducement to find excuses for evasions of contracts. He understood that the banks were doing their best to enable the position to be liquidated without

undue embarrassment," etc. (from Reuter's message published in the Independent of March 20, 1921). The following passage occurs in Reuter's message dated London February 24 about Messrs. Montagu's silver report ".....If India parts with gold in large quantities it will conduct to return to effective gold standard in the United Kingdom, but it would further depress London value of silver which might have sentimental effect in reducing the value of rupee" (Independent, March 1). Then the Independent of March 8 has the following report dated Bombay March 5: "After publication of the budget sterling exchange is giving way, quotation again being near 1s. 3d. Export demand for gold by banks continues at higher price. Suppliers from up-country are limited. Silver has declined to 31 pence in London. A fair enquiry from Indian Bazaars continues.The piece-goods market remains-stagnant without any whole sale demand-A.P." In view of the above the following extract from Messrs. Montagu's silver report for the week ending on 10th March 1921 published in the Pioneer of April 6, 1921 becomes interesting: "It is reported from New York that £ 353,000 and \$ 1,000,000 in gold have been received there from London, while an amount of \$1,100,000 in gold has been received from Paris;"

then a table of imports and exports of gold by the United Kingdom during February is given:-

	Imports £	Exports £
Sweden	85,287
Belgium.....	5,450
West Africa.....	60,996
Java and other Dutch Possessions in Indian Seas.....		50,088
United States of America.....		4,118,141
Rhodesia	119,628
Transvaal	2,462,630
British India.....	629,250
Straits Settlements...	6,625
Other Countries.....	9,618	3,711
Total	3,459,484	4,171,940

India has been importing silver with great freedom, tempted by falling rates and the opportunity of turning out gold in exchange. Still even though the response of the Indian bazaars to world wide offerings of silver be so whole hearted occasional breathing time obviously becomes necessary." Then the Pioneer of 13th April 1921 has the following in Messrs. Montagu's silver report for the week ending 17th March 1921: "During the last few months very large quantities of gold have been bought in India and shipped also to the United States; abundant further supplies are avail-

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able in the Indian Empire so long as other Indian exports are stagnant.....The repeated hammer blows caused by the shipments of precious metals, not really desired in the United States, where gold is already superabundant, have had, and, if continued, will have the effect of reducing the discount from which the British pound sterling has been suffering in regard to U. S. currency.

.....It is reported that the bazaars have sold £ 600,000 more gold within the last few days. Obviously a great deal of silver might possibly be bought in exchange for gold." Two birds with one stone ! Not only the sterling-dollar exchange but the rupee exchange also may improve because of an increased demand for silver accompanied by exports, which being of necessaries and raw materials can not be stopped indefinitely.

Internal private holdings of gold are essential for establishing a free gold currency, and so the day of the gold currency, which was not very visible on the horizon even now, appears to be going down in the West for another period. At such a time one might have thought of an export duty on gold, a gold mint, refixing of official exchange at the lower figure and a temporary silver import duty. Mr. Price moved for a silver import duty in the Legislative Assembly. Mr. Hailey, the Finance member, opposing the motion said that although it

would bring a revenue of a crore of rupees he could not accept it, because "silver was not a luxury to a poor man who had no banking facilities," and, also because "there was unanimity of opinion that the Government should cease to regulate exchange by artificial means. That had been the lesson of the Brussels Conference." Fine sentiments these, and very convenient, will steps be taken to establish a gold currency forthwith ! He was pleased to remark further that although "the imposition of import duty prevented them from exporting silver until parity rose very strongly in favour of India, he feared that it would have the effect of discriminating against India's trade with countries like China and fateful consequences would result. Taking a long and broad view of the matter imposition would do more harm than good." Such a clean cut to the erstwhile favourite ! A duty for the time being only till the gold currency be established—steps for which should be taken—can not do any permanent harm, but would facilitate the establishment of an automatic currency and exchange.

On one more occasion the rupee exchange was raised - in 1893. It is interesting to compare the two situations. In both the exchange was raised at a time when the trade balance was in favour of India. Then a scarcity of money was created, in 1893 by the closing of the mints, and in 1920 by

selling Reverse Councils. Then the United States of America repealed its Sherman Act, now the Pittman Act proved to be ineffective. In both cases there was a great stimulus to imports. In both cases the exchange after a rise fell even further than before. In both cases the fall in the price of silver induced large purchases on private account by Indian bazaar. But then the injury to exports was not so great as now, because then India's customers had the power to purchase. In the words of Lord Chelmsford, the ex-Viceroy, "The world has need of India's products" but "every effort must be made to devise a credit system under which our goods may be bought by foreign countries." There is another difference; at that time the subsequent fall of exchange was not so great as it has been now from about 2 s. 10 d. to 1 s. 3-5 d. This has created a new situation about the imports also. The high exchange which so much stimulated imports has by its reaction injured them as much.

The Secretary of State in the House of Commons, Lord Lytton in the House of Lords and the Viceroy consider the trade and exchange position as due to world causes. The similarity in the two exchange raising situations is suggestive. But there are other considerations also. India should not be compared with European countries because

industrial life here was not disturbed in the way it was in Europe. India was a huge supplier of war necessities, and so as a whole should be more prosperous like the other huge supplier but belligerent, the United States of America. Further this is the outstanding factor in the case of imports: the expectation of the stabilization of exchange at a high rate led to a huge rush of indents from India which were promptly executed as the manufacturers had a surplus of goods with them. The decreased purchasing power of European countries further deterred by the high Indian exchange or the high sterling prices of Indian commodities acted against exports. In which of these cases can the influence of exchange be said not to be present ?

Mr. Hailey, the Finance Member, himself has admitted while replying in a conference with the Indian Merchants' Chamber and Bureau, Bombay, on 12th April 1921: "I have been perfectly frank elsewhere in admitting publicly that attempts to make good the policy of the Committee have caused depletion of our sterling resources, and to some small extent, in view of abnormal conditions of trade and exchange on the continent, may have contributed to check exports. I am quite prepared to admit that if other methods of selling reverse bills had been adopted depletion of sterling resources would have been less marked."

Can the fall in the value of the rupee be said to be in line with the depreciation of impoverished European countries' currencies ? Again compare it with United States and note the following. At the time when the Reverse Councils had not contracted the currency the rupee was not so depreciated as it has since become in terms of exchange. Is this depreciation due to undue inflation of currency ? India like the States was a huge creditor country. How has the exchange situation been handled since then ? Where else do you meet the curious phenomenon of Reverse Councils under similar conditions ? In which other system of currency did the exchange rise so much after the war, and then had such a tremendous fall ? Moreover in which of the other depreciated countries such a huge portion of the currency consists of a precious metal silver or gold ? Some say that the lack of exports is the cause of the fall. But that alone without any fall in the price of the metal itself would have caused the fluctuation only to the specie point, but the fall in the price of silver in terms of gold currency can be to any extent. It depends upon the conditions of the market. Even if Indian exports be brought out, the greater portion of them will be balanced by imports, and the remaining must be such as to eat up all the various causes of the fall of silver. — In fact it is not the

lack of exports but the policy of concentrating upon silver and silver alone that is responsible both for the rise and the fall. The Leader of July 26, 1920 reports the "Times" as saying: "The present year has already witnessed some history-making movements in silver, and there is scope for more before the close. On February 11 the price touched 89½ *d.* per ounce which has no previous parallel.....

.. ...Then a squeeze for gold began on account of payments by the Allies to America, and more currency had to be put in circulation in the United Kingdom, France and Russia, while India having to be excluded from the countries in which we could allow gold to flow began to concentrate on imports of silver in payments for its large trade balance in exports.....

..... While, however, China added the top storeys to the silver edifice, the foundations and the lower floors were undoubtedly the work of India, supplemented by Europe, which absorbed abnormally large supplies for coinage purposes as an inevitable consequence of the international currency inflation. As showing the part played by India we may recall the fact that while in the five prewar years the net imports of silver into India formed altogether 26 percent of the world's production, in 1915-16 they were 17 p. c., in

1916-17, 53 p. c. ; in 1917-18, 43 p. c. ; and in 1918-19, 122 p. c. While the world supply of silver during the war was diminished by 19 p. c. India's net imports increased by 282 p. c. In 1916-17-18 the Indian mints coined 1,035 million rupees an amount equal to the coinage of the 13 preceding years. Purchases of silver on Indian Government account were an important factor down to the middle of 1919 when they ceased and have not been resumed.

The rise in the Eastern exchanges that accompanied the rise in silver at last reached a point where it became a very effective brake on exports from the Orient, while on the other hand the outward movements of goods from the West to the East has in the last few months been gathering increased momentum. The slackening of the Eastern demand for silver has coincided with a material increase in available supplies in Europe, the result of extensive demonetising process that took place when the value of the silver contents of subsidiary coinage exceeded their value as coin.' How far can Indian exports help such a position specially when it is proposed to bring them out on some credit system ? These credits will themselves create a trade balance which will be met by the exports, unless the Secretary of State sells council bills in exchange for the Foreign Government Bonds

to the extent of the whole of exports and thus creates a demand for silver. But such a huge issue of currency will further complicate matters, while the importers will still have to meet their bills some how, *e. g.* by exporting the rupees which might become more valuable in terms of gold. One sort of credits can certainly help the Indian importers. If British merchants give credit to and purchase Indian goods for other European countries the claims upon Indian importers might be met from the genuine export bills in India which would then come into existence, but that will affect exchange to any great extent only so far as it raises a demand for silver. Otherwise the exchange will be somewhere about the inter-metal prices then prevailing. People speculate as to what the future rate of exchange will be when next council bills are sold. At present, however, the Government has "no policy" and it is very doubtful whether the mere will of the Secretary of State can effect such a huge change in exchange. In fact the Government's currency policy requires to be radically overhauled before any permanent relief can be obtained. If the Indian merchants stand firm in their attitude the pressure upon capitalists in the United Kingdom will tend to bring the Government towards a right currency policy. The threat of cutting off connections is not very fearful. It is easier to dispense with luxuries than it is to give

up necessaries of life or essential raw materials for ever. Besides if the Indian merchants are not really to blame other manufacturing countries which are not directly concerned in the dispute will be ready to capture the Indian markets.

This is already happening as stated by Mr. Manmohandass Ramjee in his speech at the annual meeting of the Native Piece-goods Merchants' Association, Bombay, in April 1921: "The Japanese and continental firms.....met their constituents half way by freeing them from all responsibilities, having cancelled the contracts and borne a percentage of loss themselves. If English firms did not take similar steps Japanese merchants would be still more successful in their business enterprises and Manchester would be left back in the race." But let India conserve her gold supply and even take all favourable opportunities to increase it, for that will be an important factor in giving a permanent relief and in freeing Indian trade and exchange from the baneful effects of artificial control. Let the whole of commercial and industrial India insist with one voice on a free gold mint and currency.

Speaking in the Imperial Legislative Council at Delhi on 6th February 1919 the late Viceroy, H E. Lord Chelmsford delivered himself as follows:—
"I note however that in the joint address which some representatives of European Commerce in

Calcutta signed last year, reference was made to the risk of injury by "predatory or regulative legislation" or the neglect of transportation and other facilities, and I see that the Bengal Chamber of Commerce appears to have chiefly in mind proposals for provincial taxation likely to prejudice commerce or industry." But commerce can make its voice heard as effectively as hereto-before for "there is the safeguard of the triple veto of the Governor, the Governorgeneral and the Crown and this applies to all provincial legislation. It seems to me indeed that the control of the matters of peculiar interest to European Commerce is to a great extent concentrated in the hands of the Government of India. I am thinking of the tariff and the currency, of banking, railways, shipping, posts and telegraphs." But to protect British capital from "being singled out to bear the burden of provincial taxation, or by rival interests being artificially stimulated by bounties" (curious ! new Indian enterprises must not be given any bounties because they are Indians likely to compete with existing European interests unless the Europeans also are given equal aid irrespective of whether they require it or not. Such a fear is probably due to the expectation of retaliation by Indian ministers for the undue favours to Europeans for showing which their conscience be now restless, else why

should Indian ministers be more unjust and partial than European officers?) "an instrument of instructions" will be given to the Governor "for seeing that the pledge is made good" and he would be "in a very strong position to resist all proposals of his ministers which appeared to him to be acts of hostility to British Commerce." What an illuminating speech! The triple veto applied to all provincial legislation in the spirit of the speech will be a sad commentary on the hollowness of the Reforms. It is clear from the above that European commerce in India expects "acts of hostility" from Indian Ministers specially in the way of neglect of transportation (is its development injurious to Indian interests ?), and of stimulating rival interests (so that development of industries is not to be allowed as a fiscal policy, and tariff is a central subject). Moreover matters of special interest to European commerce, tariff, currency (is there any more doubt that currency policy has been dictated not by Indian but by English interests ? In this connection it is interesting that in the exchange deadlock in the import trade the Bombay Chamber of Commerce refused to act with the Indian associations and agreed with the views of chambers in England discussed above), railways, shipping etc.-are these last of peculiar interest only to European commerce? Frankly yes. Indian

merchants and manufacturers have not expressed such fears. India has got a huge net work of railways. What has been the benefit? Essential raw materials and food grains, the life blood of the country, are brought down from all the nooks and corners of the country and exchanged for luxuries. Substantiality has decreased and "fashionable-civilization" has increased. At the same time the Indian industries, originally killed with prohibitive duties in England have been neglected in the fiscal policy. Increase of population, less of earning power, increase of the hankering after luxuries, with the gradual general increase of scarcity and deterioration of life giving substances and the result, look for it in the physique of the people, in the rate of mortality, in the average duration of life, in the number and frequency of epidemics. But then India had been lined with silver safely double-locked with the silver import duty and the gold exchange standard. What an attractive "shining-silvery hollow"! We want our industries back so that people may have sufficient bread and the starving pressure upon agriculture may be relieved. For this a sound currency and fiscal policy is necessary.

THE CASE FOR THE PRESENT POLICY.

(1) The present system is based upon the scheme of the great economist David Ricardo and is the most economical yet devised.

(2) It is as stable as a gold currency but economises gold to the utmost possible extent, the variations that have been experienced are such as would have occurred in any system.

(3) It prevents gold from being unproductively hoarded or used in circulation in India, and keeps it at the place where its most essential function, the settlement of international balance of trade, can be best performed, and so saves the cost of carriage, that would otherwise have to be borne, and saves it for the Indian Exchequer.

(4) It enables huge profits upon the coinage which invested in London, the safest money-market of the world, are a source of revenue.

(5) It enables the people to have that currency which is best suited to their needs, and still keeps it linked with gold to facilitate trade.

(6) It enables the Government to have regularity and certainty in the payment of their Home Charges.

(7) By easing the stringency of the London money market it releases money for financing Indian exports and helps in the raising of loans for India.

(8) It enables silver to be purchased in the

chief money market of the world with the best of arrangements.

(9) It induces investments in India by providing a stable exchange.

THE CASE AGAINST IT.

(1) It is fallacious to describe it as based on the scheme of David Ricardo. There are three essentials in his scheme:-

(a) The reserve of gold should be kept in the country.

(b) The actual currency should consist of paper and not any metal.

(c) The greatest freedom of private import and export of gold and silver should be allowed.

All these three are absent in the Indian system. Moreover Ricardo assumed perfect confidence and security of the money market as the condition precedent of his system. This condition would naturally be different in an independent country and a dependancy, so that even if all the essentials were present the system suitable for an independent country like England (which, by the way, has not cared to adopt it) is not necessarily fit for a dependancy like India. Further: what is the effect of the absence of the three essentials ?

(a) Indian reserves kept in London have proved a veritable apple of discord. Under Ricardo's system although gold would not circulate it would

form a reserve chest for the country, in the Indian system should some interruption in the communications between India and England arise a serious crisis will be produced. With Ricardo although the people would hold paper money, but that paper money would represent actual gold which would be the store of value of the nation. It is not so in India.

(b) Under Ricardo's system the currency consisted of representative money with a full backing of the gold reserve, so that although gold could not circulate as currency it could be kept as a store of value when its representative money would not be required for circulation. Paper has got no intrinsic value so that all exchange and prices would really be in gold as if gold itself were the circulating medium. In India the rupee is a silver rupee which has got an intrinsic value of its own. The result is that the exchange is not governed by the price of gold alone in terms of commodities, but also by that of silver, for it is silver which purchases commodities and determines the demand and supply of export bills. The measure of value, and the store of value is the token money, silver rupee and not the full value gold. This token currency which is also in the curious position of the unlimited legal tender money, is not backed with full gold reserves. It is an inconvertible specie. Ricardo's is a sort of single full reserve paper currency system.

which conserves the whole gold supply of the nation's currency only for international exchange giving under the circumstances a great strength and stability to commercial transactions. The Indian system is a multiple unlimited legal tender token coin currency system of inconvertible specie. The two are as wide apart as the poles.

c) Restraint of gold and silver imports and exports through duties, selling of council bills below specie point, diverting sovereigns from India to England, war time prohibitions etc. produce distrust of currency policy, prevent people from having a sound store of value, and by making the system unnecessarily complicated and artificial make possible the developments that have already been noticed.

Then is it an economical system? Huge payments to banks and brokers, necessity of an expert staff, hampering of trade and industry through artificial regulation of exchange, increase of the price of silver by the Indian demand, the possibility of the recent reverse councils, purchase of silver in London coming from America to be shipped to India rather than the purchase of gold from Australian and African neighbours—are these economies? If this is an economical system why have not other countries including England adopted it? Moreover if its advantage consists in economy why was not

gold substituted during and after the war when silver had become expensive so much so that the huge changes in the exchange rate were necessary ? It can not be said that gold was not available all the world over, else where did the world supply of gold go to ? It would have come to India as it went to America and Japan as the price of India's extensive supplies. And the expense of a gold currency ! Merely the opening of a gold mint for all who might care to bring bullion and charging a coinage.

(2) Is it as stable as a gold currency ? In a gold currency the exchange fluctuates only to the specie points unless there are political complications or a very weak and inflated paper currency. But in India not once but often the exchange has fluctuated beyond specie points without any such cause. This condition not existing the question of economy becomes irrelevant for no country would prefer an instable currency for the purpose of economising gold even when that gold is used in the interests of that country. Here the gold is used for the London money market, and an instable system has been given to India. If India also had a gold currency the Anglo-Indian exchange would have fluctuated even less than other gold exchanges because the political security of both countries is the same. It has on the other hand fluctuated much more.

than that. If both systems are liable to the same fluctuations (which is not the case), where is the necessity or the beauty of an artificial system with its manifold inelasticities and defects, with all the possibilities of artificial hampering and regulation of trade and industry specially in a case where the gold is economised for others. Here the cost of maintenance of the exchange falls upon the general tax-payer instead of his rich brother, the opulent merchant, who derives all the convenience. Why should this cost be forced upon the unwilling Indian tax-payer, and why should it be incurred when the Indian merchant himself raises his voice against it? Why should the crisis of 1918 and of 1920-21 be made possible when there is no particular advantage in the stability, and what would happen if next time United States is not willing to help? It is in this system that the strange situation of different rates of exchange one for the market and the other for the Government has been possible. Mr. G. Findlay Shirras, ex-Director of statistics with the Government of India unconsciously admits on page 45 of his "Indian Finance and Banking" that "It is unnecessary, perhaps, to emphasise that our system of currency like that of other countries, is not on an absolutely permanent basis, and in our opinion never will be on such a basis." The latter part is a curious indication of the official

attitude. What wonder then that Indians are so anxious for their currency system. With a gold currency the exchange value of a rupee will be as permanent as that of a shilling. The shilling has not changed in its ratio but the rupee has changed so often. This is so because here the token coin is also the standard coin—a strange position. And the measure of value being a token but standard coin its relation with outside gold standard currencies would naturally change; if it had been also a subsidiary coin then the gold which would have been a full value standard coin would not have fluctuated in this way.

The Currency Committee admits that the present system is not a proof against a great rise of silver. The changes that they proposed have not supplied the deficiency because immediately after their report there was another great rise in the price of silver against which the system again broke down. Moreover although now the exchange is proposed to be established at 2s. to the rupee, Professors Cullis and Carpenter who reported to the Committee on the position of silver, consider that with the resumption of stable conditions in Mexico and elsewhere the prewar production of silver may even be exceeded. It is interesting to note in this connection that the Universal Ore Crushing Co. in India is said to have discovered silver ore near the

Tata Iron Works recently. Besides United States repealed the Sherman Act in 1893, it may repeal the Pittman Act also. The expectations about its application and results have not been realised. The existence of the Pittman Act has not prevented a serious fall in the price of silver so much so that now the exchange is lower even than 1s. 4d. the prewar rate. The expectations of the Currency Committee have been falsified. Now there is the possibility of another commission to stabilise the rupee at a lower exchange. The Babington Committee itself says in para 51 "The costs of production in India might fail to adjust themselves with equal rapidity to the lower level of prices and Indian exports might suffer to an extent which would endanger the maintenance of exchange at the level which we propose. In that case it would be necessary to consider the problem afresh and take the measures which might be required by the altered circumstances." What a stable and secure currency system !

(3) This bogey of hoarding gold by India has at last been set at rest by the Currency Committee which has recognised the justice of the Indian claim. In the words of Sir Stanley Reed India's "normal demand for the industrial arts, and for the satisfaction of the social customs of three hundred and fifteen millions of people, was met before the war

by about ten millions of gold annually. The United States of America was reported recently to be absorbing a million sterling gold per month for industrial purposes. Yet no one says that the United States is a bottomless sink in the matter of her gold absorptionit induces a sense of angry injustice to find that the Indian demand for the precious metals, for precisely the same purposes, is perverted into senseless hoarding, especially when the history and conditions would justify a far larger gold absorption than the Western nations with their general literacy and highly organised credit systems can claim." Thus during the war United States, Spain, Netherlands, Switzerland, Norway and Sweden with a population of about 114 millions absorbed gold worth £ 337 millions while India with a population of 315 millions was allowed to absorb only £ 25 millions. Is it justice? True that they were neutrals but these countries had gold currencies while India had not and there was a fine opportunity of making it a gold one. This opportunity was lost not in the interests of India, although it came again even after the Armistice. India would have got gold which went to other countries in payment for her own commodities. Is it not monstrous to charge India with hoarding in face of such a situation? This was when hundreds of millions of £ were due to India on account of her

trade balance. According to Mr. Shirras himself during the five years ending with 31st March 1919 India had a trade balance in her favour of about £ 254,000,000. If India had been allowed to import this in gold she might have been a serious competitor for a leading position in the money markets of the world. England could then have met her war needs by raising loans from this abundant gold in India, and India would have acquired a strong monetary position. Instead of this the usual policy of forcing silver and silver was continued although India did not want it so much. The injured so called "sink of precious metals" would have in the words of Mr. Dalal "freely exported but for measures by the Government to prevent exports." Indeed India does not absorb as much gold as she is entitled to do with regard to its population, which is about one fifth of the present members of the human race, and the reason is obvious. The lower classes find it difficult even to make the two ends meet. The agriculturists who form the great majority of the people are hard pressed, because the high proceeds they receive are eaten up by high land revenue, increasing rents, more frequent failures of monsoons, and so by the arrears of rent, and the money lender's account, while at the same time the cost of living is increased for them also. There being few other openings the pressure on land is tremendous.

and the peasants can ill afford to have any staying power. If demand for famine reliefs is not so insistent as before the reason is not that the staying power of the people has increased, but that a sort of continued general state of scarcity has accustomed them to a lower sustenance. Where can be the question of hoarding in such a case. Even the middle classes have to meet highly increased cost of living and education, leaving little for saving. The question of employment in their case also is assuming a serious form. Moreover even if the educated classes do put by some hoards, then it is clear that there must be some intelligible reason, and not merely a matter of instinct. Sir James Begbie the dissenting member of the Chamberlain Commission was right in thinking that the decrease of confidence in the token coin rupee as a store of value has induced the increased gold absorption. He would indeed be a super-human who would prefer a silver token coin to a full value gold coin as a store of value. Indians do not claim to be such. Before the closing of mints and in 1900 whenever the Government sought to force gold into circulation this very "sink" returned it to treasuries because at the time it happened to be cheaper than the other metal, as has already been shown. This shows the soundness of the currency instincts of the people,

Moreover admitting for argument's sake that India is a sink for gold, why should she not be so? European countries may be bottomless sinks for India's food grains and raw materials and thus draw out her very life-blood, but India must not take even her ordinary share in the luxury of gold. If gold is not a luxury but an economic necessity, then India's case is stronger still. This is strange equity and justice!

Then it is said that apart from this question gold in currency is a wastage, yet all over the world gold forms the currency. Paper as has already been seen is the most economical method, then why should silver be given in such prodigious quantities. We have already shown that silver, if anything, is a more complicating thing than paper. Moreover there are other countries which have not great banking facilities such as Russia, Egypt, South American countries, and yet they have gold currencies. Even those countries which have banking facilities are committing a wastage in having a gold currency. They should have for that part of their currency which is in metallic form a silver token coin and then they shall also be following the excellent example of India. "The preachings of a preceptor on honesty with a stolen goose in his sleeve can have no effect" Mr Dalal is perfectly right in thinking that "The first essential to a great extension of

modern banking is a currency system which inspires the public with absolute confidence". Insisting upon the development of banking before gold currency can be introduced is undoubtedly putting "the cart before the horse". The only ways to decrease the hoarding habit, whatever of it there may be, are to open a gold mint and the encouragement of foreign loans in India, and not a gold exchange standard with reserves in England. A gold mint will induce people to reduce the weight of their ornaments thus decreasing their store of value qualities, and retaining and even refining their ornamental beauties, as this will be more convenient and profitable.

Now as to keeping it at the place where it is likely to be needed, this idea also ignores the fact that India seldom needs it at all for the professed purpose. India is in the curious position of having nearly always a yearly balance in her favour even after the payment of the Home Charges. Only once before the war were reverse remittances required, while the rationale and results of the recent Reverse Councils have already been seen. The reason for this is obvious. India exports food grains and raw materials, the demand for these is not very much a flexible one, and so it continues in spite of rising prices. Even the increase of imports means a greater export of raw materials for their manufac-

ture, Moreover even if by sudden chance as in 1907-08 unfavourable balance arises it is very likely to readjust itself in a short time, and the only probability of India requiring a huge continuous amount of reverse remittance is in the case of political complications or artificial handling. But for such occasions it is extremely necessary that India's gold reserve should be in the country itself to be absolutely under the control of India. Thus neither politically nor economically India wants her reserve to be in London.

The argument that there is the saving of the freight that would have to be paid on gold coming to India and going back to purchase silver in London proceeds on the assumption that silver and not the gold currency is to be given to India and that silver cannot be purchased in Bombay. Both of these assumptions are uncalled for as will be shown in the discussion of point No 8. The saving of freight on gold shipped to settle unfavourable trade balance is problematical. For this rare chance, besides the defects of an artificial system, India actually bears charges much more than any saving that might be affected in this way. Now silver from America goes to England and is reshipped to India (London taking the middleman's profits), while gold from Australia goes to England leaving

India in the way. With a gold currency India would get her gold from Africa and Australia and all this freight would be saved. On the other-hand even without a gold currency the small saving of freight is paid for in the great loss of interest which would have been got by investments in India where the rate is higher than that of London. Besides why should not India pay her Home Charges as other countries pay their debts? The removal of distrust of the whole policy is certainly worth a small pecuniary advantage in freights because in currency matters public confidence is every thing. The other fact that the Secretary of State gets an additional income in the charges for the facilities he provides, is not worth much discussion for the Secretary of State has got no business whatever to be an exchange banker, and his profits as such cannot be any reason for the continuance of the policy.

The crisis of 1918 has taught some lesson in favour of keeping gold reserve in India, and so the Currency Committee have made halting recommendations for keeping part of the reserve in India. If gold in India is useless, then the steps taken during the war to conserve the Government gold in India must have been a mistake. Experience of 1918 does not say so, and the Currency Committee does not say so.

Even under the present system the balance of trade due to India is paid to India in gold and not silver but that gold is kept by the Secretary of State for investment in London, and so this appears to be the real reason of keeping Indian funds in London. Another fact points to the same conclusion. Although the Gold Standard Reserve has not so far been wiped out on any occasion by the payment of Reverse Councils, but an additional reserve as the 1st line of defence, the Paper Currency Reserve is also kept in London. This use of the reserve has always been objectionable, and has been repudiated by the present committee also, who are of opinion that the proper location of the reserve is in India. Its being kept in London has had at least one effect. It has prevented notes of higher denominations than Rs 100/- from becoming universal as they would have done, if the strength of the funds belonging to the reserve in England had been available to the currency offices in India, for then it would have become easier for notes of higher denominations of one circle to be met by the offices of another circle.

On the other hand there are the very serious objections to the keeping of Indian reserves in London:

(a) It makes India much more liable than it would otherwise be, to be affected by crises out-

side India, and thus India may suffer for no fault of hers.

(b) It makes the Indian funds liable to be used for British interests as has been done recently.

(c) It takes away Indian reserves out of the control of India. While other countries guard their gold reserves so jealously, Indian reserves are carefully kept out of India. If by chance communications between India and England be interrupted, this gold reserve of India would be useless to India.

(4) It is perfectly true that with a gold currency this item of profit will be wiped out. But then of what does this item consist? It is a clear tax on the people, who are obliged to accept a token coin for storing their value, thus making a gift to the Government of a part of their wealth. It shall be seen later that like a paper money the rupee also is liable to depreciation, indeed it is subject to another complication of the commodity value of silver; but this much is clear that from every rupee, the standard money, the money of account, and the store of value, given to a person a huge tax is deducted by the Government. This tax forms the Gold Standard Reserve. It is an indirect tax. Now if the Government is bent on taxing the people for the purpose of helping the

London money market, it should do so in an open and bold manner, and being a bureaucratic government this it can do at any time and in many ways, whether there be coinage profits or not. Why should this fact delay the introduction of the gold currency. At present a double loss is inflicted on India.

(5) It is a gratuitous assumption that silver is best suited to Indian needs. The historical associations point to a gold currency. India, the whole of it, has been clamouring for eightyfour years for a gold currency ; official commissions and committees have repeatedly declared the fitness of India for a gold currency ; even in Chamberlain Commission there was a dissenting member in its favour ; the last Committee also in spite of the limitations of its terms of reference has decided in favour of a gold currency—can it still be said that gold is not suited to India ? Before the war £ 40,000,000 of gold were in circulation as Sir. Webb says. During the war sovereigns reached a premium of 33% The official efforts to force gold into circulation failed because they were made at times when gold had fallen in value comparatively with silver, and not because gold was not popular.

As to small payments, are shillings and pences useless in England ? Retail transactions there also are effected in terms of shillings, and a shilling is worth less than a rupee. Should, therefore, the English currency be based on shillings only ? The

larger transactions in India are effected in terms of rupees not because a sovereign is disliked, but because the whole Indian Currency is based on rupees, the whole note issue is in terms of rupees, and while both rupee and the sovereign are unlimited legal tender, the sovereign is not so current, for the simple reason that there is no gold mint in India open to its coinage. So those who want sovereigns either must import them, or must go to the Government who may or may not supply them, as it has accepted no obligation of supplying sovereigns for rupees, and sometimes it does refuse to do so. But it has bound itself to supply rupees in exchange for sovereigns. Consequently the sovereign can not naturally be a popular current coin and so can not be a popular measure of account. Under the circumstances it can be only a store of value, and this function it has admittedly fulfilled.

As to linking with gold what sort of linking has it been? Rupee is still the principal currency and money of account. As to foreign exchange the only result has been that the Government has levied a tax on the rupee and to the extent of this tax has given it an artificial value. Even this artificial value it is not always able to keep, witness the crises of 1907-08, and 1914-15, 1920-21 and the frequent selling of Council bills below the specie point. When the price of silver rises by more than

the amount of this tax the link is removed, and the whole system falls down to the ordinary relations of commodities. There is not much beauty in it. As to the facility to trade, the effect of the linking of 1893 was the encouragement of imports over exports, and this effect has again been produced by the policy now in the field. The other facility has been to the London money market with stringency for the Indian one. India does not want such facilities.

(6) This is true, but the same result could have been achieved in other ways. The pay and pensions of soldiers and the pensions etc., of all civilians can be fixed in terms of rupees. Stores may be purchased in India; better to have a bad quality than an excuse for such an injurious policy. About the national debt, the securities of the Gold Standard and Paper Currency reserves can be utilized in paying off a portion of it, and the interest on this portion can be formed into a sinking fund for the whole debt as detailed below. With a gold currency, however, even without these measures the exchange will be stable fluctuating only to specie points because both the countries concerned would have a similar gold currency and practically equal political security, and so the regularity and certainty will be automatically secured without this huge structure of Gold Exchange Standard; and

then after the above steps have been taken to reduce these Home Charges, the remaining sums may be remitted in the way in which all other countries do. But the possibility of the experience of 1873-93 will be eliminated. These Home Charges have been described as an economic drain, and now-a-days it is sometimes protested that the description is misleading.

These Home Charges are the initial cause of the present system of currency, and so far as this system has led to the undue export of foodstuffs and encouraged the import of luxuries, so far as it has deprived India of its rightful share of gold, so far as it has kept Indian funds from the Indian money market for the easing of another one entailing loss of the higher interest that would have been got in India, so far as it has accumulated the Gold Standard Reserve in England by indirectly taxing the people through coinage profits, so far as it has prevented the reserves in England from being used for paying off India's sterling debt and thus reducing the interest payable thereon, so far as it has led to the frittering away of Indian resources by the recent sales of Reverse Councils, and in so far as it has in any way inflicted any loss on India which would have been saved in a gold currency these Home Charges have ultimately acted as an economic drain. In respect of the items of the charges also, the one

in respect of pensions and salaries and military costs is an economic drain to the extent to which it could have been saved by the employment of Indians. In the case of the European employees the remunerations have been excessive and to that extent there has been a drain. In respect of interest charges also, in so far as the loans have been used for development of railways, which have developed the commercial side and not the manufacturing side of Indian trade, and thus have led to the exportation of food-stuffs and raw materials leading to national deterioration, there has been a distinct drain. Similar is the case with canals which might have increased Government's profits, but have not decreased the poverty of the people. Where is the wonder then if these Home Charges be described as an economic drain ?

(7) and (9) What do the other countries in which British capital is invested, or which come to borrow in London, do ? Do they also possess a gold exchange standard or keep a Gold Standard Reserve and Paper Currency Reserve in London ? Further the anxiety to ease the London market extending to the selling of Council bills below specie points is certainly not justified. Selling below this point is artificially creating a demand for, or encouraging the exploitation of Indian raw materials, while at the same time keeping back the gold.

It is an intentional lowering of the exchange and not keeping it stable. Such an encouragement of exports also is not beneficial. We want encouragement of our industries, and not of our exports of foodstuffs and raw materials. Another direction in which this anxiety has shown itself is the sometimes charging of a lower interest on the money lent by India to London than the interest paid by India on its own debts to London again. Is it not curious that a person should lend his funds to another at a low interest and himself borrow from the same person at a higher rate? Thus even recently the Government of India invested Indian money in London in British Treasury bills at the rate of $3\frac{1}{2}\%$ but itself paid to His Majesty's Government 5 p.c. on the unpaid portion of the £ 100 millions gift of India. A third direction of this anxiety has led to the huge proportion of investments to cash in the reserves in London. When occasion arises these securities have to be realised at a loss.

Besides this we do not want loans from the London market or the investment of British capital in India. What has British capital done? It has mined our gold, our rubies, our oil, our manganese, and numerous other things, but it has not added to the wealth of the people, nor has it improved the lot of their life. It has exploited our agricultural resources but has not solved the problem of poverty.

Railways and canals? Railways have exported foods and raw materials from, and taken luxuries to the very nooks and corners of the country, but they have not developed nor cared to develop the internal industries of the country, which would have given bread to the people. I do not mean that railways have been altogether useless. But at any rate we have enough of them now, and so we do not want any more loans, nor do we want to take the liability of any further interest, nor do we want to keep Indian funds locked up in London. If railway companies want funds they should go themselves to the market. The Secretary of State is not a banker. It will be objected that railways are a profitable concern, which pays its own cost including interest and still yields a handsome profit. But these profits, interest, etc. come from the pockets of the people and so interest sent out is taken from the pockets of the people. The sum that has been borrowed, that also will have to be paid some day, and in addition these interest charges go out. The Government is not there to carry on profitable businesses (because its profit will be a tax on the people), unless the business is of high national benefit, and further extension of railways is not so. As to canals they might have increased the land revenue of the government, but they have not decreased the po-

verty of the people. The pressure upon land is as great as ever. The real thing wanted is the increase of the earning power of the people by the development of a variety of professions through the establishment of industries, and not the increase of the productive power of the land merely for the purpose of having increased produce for export to foreign countries, filling the coffers of the Government, and the land-lord, although the landlord also has got to meet increasing cost of living without many openings for his children or himself and so is not quite so well off. Moreover this concentration over canals has got another defect. It fixes the attention over agriculture too much, diverting it from the industrial needs of the country. We have sufficient canals for the present and so do not want to take any more loans for them, but want our funds back.

(8) We do not want to purchase silver at all. We want a gold currency. In the past the experience of silver-purchasing has been very instructive. It was India's demand that raised the price of silver so much. The argument that even if a gold mint were opened, then the common people will bring their small hoards of gold to the dealer, who will get them coined at the mint, and then deposit the gold coins at the treasury and get rupees, and then this gold will have to be sent to

England to purchase silver is fallacious, because it depends upon two untrue assumptions:—(i) That the dealer will pay in rupees, because if that be so, then there will be no change in the present situation and gold will not be forced from the hoards. Any forcing of gold from the so called hoards of ornaments for currency purposes can be possible only when the holder of gold can expect payment in gold coins. Otherwise as to rupees he can even now sell his ornaments for rupees. (ii) That both rupees and sovereigns will remain unlimited legal tender. In a gold currency rupee has got no business to be an unlimited legal tender, because its position as a token coin deprives it of any bimetallic advantage, and so it must be a subsidiary coin pure and simple. Besides even common people who are near enough will come to the mint.

Even under the present conditions it is not necessary for us to go to England to purchase silver with the removal of the silver import duty. The import duty increased the price of imported silver, and as it was not refunded on export there was a loss on export. Consequently silver was not attracted to Bombay as the silver markets did not expect to get it back easily, or in other words Bombay dealers did not expect to be able to sell it profitably whenever they wanted to do so. With this duty removed the huge Indian demand

for silver would make Bombay a world market for silver in which silver could be purchased with advantage by tenders. Therefore this advantage also is not an advantage except to London where the funds are invested and where the dealers get the middlemen's profits and the broker his remunerative charges. Moreover with a gold currency the need itself will be eliminated.

ADDITIONAL OBJECTIONS

(1) The very fact that such revolutionary changes in the exchange value as those of 1893 and the war time ones, and that of 1920, and 1921, and the possibility of such changes occurring again is a sufficient condemnation of the system. The legal value of the money standard of a country must be invariable. The measure of value should be as unchangeable as a yard, a ton. If £ is the standard then the relation of a rupee to a £ should be as stable as that of a shilling. This the system has failed to secure. Mr. Dalal rightly remarks ".....the Indian Currency was founded on the sovereign (a full value gold coin) as the money standard with rupees (token silver coins) definitely related to the sovereign at the rate of 15 to 1, and if it is impossible to maintain this ratio between the sovereign and rupees I consider that the system has failed in its most important part."

(2) At present the Indian system is in reality a silver standard system. Although gold is the nominal standard, but its administration and fluctuation is like that of silver. The measure of value, the actual standard, and the store of value is all silver. The only difference is that instead of leaving to market the automatic fluctuations of the two standards, the Government steps in to control them, and tries to maintain them at a stable rate so far as it can, unless in a crisis it goes beyond its power, which also is not very rare. This state of affairs must end for now no country with a silver standard can have the full advantages of trade, as most of the countries of the world have got a real gold standard, and the difference of standards introduces complications in trade conditions which restrict its free development. Consequently it is extremely necessary to bring the Indian system in line with the other gold using countries.

(3) A gold currency is a simple and the most stable form of currency under the circumstances when most of the countries possess a gold currency. Under it the cost of maintenance of exchange would not fall on the general tax-payer while benefitting the big merchants, but will be borne by the persons who actually want to use the machinery of exchange.

(4) As has been seen already the rupee has

not even got all the advantages of paper money also because (*a*) it is heavier than paper money, (*b*) it is more costly to produce, (*c*) it has not got the same reserve for its redemption, which redemption also is not as unconditional as that of the note issue; the result is that it does not inspire confidence which is absolutely essential for the soundness of the principal coin of the currency, (*d*) unlike paper silver has also a commodity price which introduces needless complications in the problem. In a system with gold and notes only political situations enter to cause wide fluctuations, the ordinary ones being within specie points, in this case the price of silver as a commodity also enters into the calculation.

(5) The most essential function of the India Office has now become the direction of the currency system, and so far its cost of maintenance is useless to India, for with a gold currency such artificial control will not be necessary. The objections as to silver-purchases in London, and as to the keeping of Indian funds in London have already been discussed.

(6) This system of currency does not inspire confidence in the people which is the 1st necessity if the nation wants to develop the banking and investing habits of the country.

(7) This system is inherently liable to inflation for the following reasons:—

(a) Practically every year there is a favourable trade balance in excess of the requirements of Home Charges. So far as Home Charges are concerned, the issue of rupees is provided for in the budget. The rest of the revenue after deducting the expenses of these Home Charges is also provided for being spent in one way or another. But the excess of the issue of rupees over these Home Charges is not counterbalanced by any receipts of revenue. Consequently every year this excess remains in the circulation.

(b) As the rupee is a token coin it can neither be melted for ornaments nor exported profitably.

(c) As there is no obligation to pay gold— which is full value money—for rupees the rupee is denied even the privilege of convertibility extended to the note issue. This convertibility is only allowed when the rupee wants to go to England for settling trade balances by purchasing Reverse Councils, but such occasions are extremely rare. Otherwise the rupee can not be exported as a commodity at all unless the price of silver rises very much.

Thus there is no escape for the rupee, but it must remain in the country and produce an unhealthy increase in prices year by year encouraging imports. If the exports have still constantly

mounted up, it is not due to low prices, which is obvious because there have not been low prices. But the reason is that advance of machine made manufactures in Western countries has reduced their resources of raw materials, while their supplying foreign markets with such articles has increased their need of raw materials. This role has been assigned to India the demand for whose products, therefore, has increased more than required merely to counteract the rise of prices.

(8) The exchange being fixed legally, when the prices of metals vary to any extent from the fixed rate, then besides increasing the complications of exchange values there is an unhealthy speculation also, which results in an artificial overissue or paucity of money. The recent sales of Reverse Councils at a rate widely different from the market rate of exchange is a case in point.

(9) The rupee being itself an inconvertible token but unlimited legal tender money tends to inflate prices by the amount of the excess of its money value over its intrinsic value. In times of crisis it is an additional element producing inflation and a premium on gold. This gives a subsidy to imports by this artificial increase of prices.

(10) In India paper money is expressed in terms of rupees. Now rupees themselves are not

full value money. Consequently in times of scares the expectation of the redemption of the paper money by token money is another, at least sentimental, unsettling cause—sentiment has such an important position in currency affairs—increasing the discount on notes.

(11) Thus not only the difference of standards (gold and silver) but also the fact that the principal money of one of those standards has an intrinsic value less than its legal value has a trade restricting effect. Because then not only the number of rupees that can be got for one £ but also the commodity value of rupee in India becomes important for the comparison of comparative prices and costs.

(12) Silver is now used mostly for arts and so is not so stable as gold which is used for currency, because in arts there is always a new demand for a supply, while in case of metals used for currency the supply is so great that an occasional difference in its supply or demand is not felt so acutely. The price of silver is determined by its marginal cost of production *i. e.*, when there is a varying demand for silver, then the price of silver will be near its cost of production; with a greater demand the cost will be greater because minerals follow the law of decreasing returns and so the price also will rise with the costs or the costs have

a great influence in determining the price, while the world price—which is more stable being not so responsive to demand for purposes of arts—of gold determines its margin of production, *i. e.*, fixes the cost at which it may be produced, so the price which is more or less stable makes the supply also more or less the same. Thus the great Indian demand for silver forces up the price of silver producing in-stability and a sense of insecurity in the exchange ratio and the system, as was the case during the war.

The present proposals of the Currency Committee.

Both the majority and minority reports agree in recommending free import of gold, and a gold mint, and also in considering it essential that both the rupee and the sovereign should circulate side by side as unlimited legal tender money. The majority fixes the ratio at Rs. 10 to 1 sovereign, Mr. Dalal keeps the old ratio but introduces debased 2 rupees and 8 annas coins, which will drive out the present rupees and half rupees and will themselves circulate in their stead. Here we are not concerned with the action taken upon the recommendations but propose to examine the effects that these proposals, if adopted, should have. The minor recommendations about the location and constitution of the reserves, about the experiment

of issuing 5 crores of notes on the security of export bills in some such way as that of the Federal System of the United States are all really subsidiary to these. In both the sections of the report one thing is common, and that is the desire to give a gold currency concurrently with a silver one both being unlimited legal tenders, or in other words a sort of bimetallism, *i. e.*, the system in which coins of two metals are unlimited legal tender (that one of them is also a token coin is a new variation).

Bimetallism as a system is now quite discredited and it is unthinkable for one country to adopt it when practically all other countries are gold monometallists. The following are some of the objections to a pure bimetallic system :—

(1) Its compensatory action involves a loss to the community in general of the country, as they receive their debts in the cheaper metal. Thus only one metal remains in circulation and that the worse one.

(2) Whenever under this action silver replaces gold there is likely to be a revulsion of feeling, because silver is heavier and less attractive than gold. This will have an unsettling effect and prices in terms of silver are likely to rise.

(3) An artificial and speculative trade in bullion is created.

(4) Most of the civilized countries are gold standard countries, and so a country now adopting a double standard will bear all the cost of the compensatory action while other countries will derive the advantage from the moderation in the prices of the metals.

(5) As prices generally follow the cheapening metal they are likely to remain higher than those in other countries where the more valuable metal circulates.

(6) The Government is obliged to maintain incessant coinage now of one metal and now of the other.

Moreover the expansion of credit both for internal and external trade has decreased the importance of the compensatory action of the system through the huge creation of credit currency, which thus supplies the deficiency of metal (provided always that there is a sound system of currency upon which it be ultimately based.) In case of a rupee even the advantage of compensatory action will be very limited, because the rupee is a token coin and its coinage is not open to the public. The compensatory action can occur only in one direction and that is when silver increases in price and so gold is purchased for coinage by the Government to supply the place of silver. From the point of view of ultimately realising a gold currency the

proposal is misleading, because it will postpone the day of gold currency to the time when the increase of value of silver is sufficiently great to enable the intrinsic value of the rupee to leap over the token portion also of its contents, and reach a rate of a higher intrinsic value than its money value, and provided at the same time that official rate of exchange is not raised as was done at the time of the last great increase in the price of silver. This the Government is not likely to allow. Thus this proposal is not likely to introduce full gold currency, and all these complications are likely to continue till another commission sits, and recommends such a change of the policy at a time, when the Government also is in a mood to accept the suggestions.

In fact it is this unlimited legal tender position of rupee, which is a silver coin and a token coin, that has created the whole trouble, making the Indian currency system practically a silver standard instead of a gold one, because gold is not current sufficiently to be a general measure of account and serves mostly as a store of value. It is this position which has introduced endless intricacies in exchange, and has made the whole policy possible with all its defects and difficulties. Without depriving the rupee of this position permanent relief can not be given. It can be suffered to retain

this privilege only so long as gold has not come into circulation.

Mr. Dalal keeps the ratio of exchange at the old figure, because the proposed change will effect a revolution in the relations of creditors and debtors, and will increase the imports harming the favourable trade balance of India, and injuring the industries of the country. He admits that it will lower prices, but considers artificial lowering as unauthorised.

The Currency Committee also in para 49 of their report discuss the matter at length and are of opinion that in case of imports "if the exchange value of the rupee rises, this sterling cost is represented by a smaller number of rupees and the goods can be sold at a lower rupee price." In case of exports such as wheat the world price in terms of sterling will be represented with a smaller number of rupees and so the price of wheat will be lower. Even the monopoly exports such as jute will not be quite unaffected but will on the whole be lowered in prices, and the grains of internal consumption also such as Jowar and Bajra will be indirectly affected. This would mean that a high rate of exchange would stimulate both imports and exports, because the latter also will have to follow the world prices in terms of sterling. That this reasoning is incorrect is apparent from para 51 where

they recognise that high exchange restricts exports. These effects however are said to be transitory and will "no longer be operative when wages and other elements of cost have adapted themselves to the new level of exchange" Then they proceed on "The world shortage of raw materials and food-stuffs is likely to ensure a continuing demand for Indian produce during the period necessary for complete adjustment, while the great rise in the level of prices in countries importing from India should generally enable the Indian producer to obtain a satisfactory rupee price for his commodities in spite of the high exchange." Then will or will not the rupee prices of these "raw materials and food-stuffs" be lowered? Further some articles like jute are monopolies while for such articles as tea, cotton, seeds and hides "world demand is insistent despite the high range of prices" and so "Indian trade is not likely to suffer any permanent injury from the fixing of exchange at a high level." But where goes the lowering of the prices necessary to avoid disturbances in a country "where the mass of the population is ignorant and uneducated, and inclined to attribute all calamities to the Government" and which would be beneficial to the mass of the population. With similar reasoning they expect that Indian industry will not be injured because (1) cost of production in

European countries has increased greatly (2) the cost of raw materials and wages will be lower for India: industries (the Committee's reasoning quoted above does not make it clear) (3) of the decrease of the cost of machinery imported from abroad (but will not the increased cost of its production increase its price? If not then what is the meaning of No. 1 for the competition of imports will continue, or is there anything special with machineries in particular?)

Now let us examine closely what the results of a high rupee exchange should be, assuming that the industrial efficiency of the parties remains unaffected and no artificial restrictions exist. Prices in India will remain rupee prices, and in England they will remain sterling prices. Thus English products of the same sterling price will be represented by a smaller rupee price in India, while Indian products of the same rupee price will be represented by a larger sterling price in England or the prices of imports into India will decrease increasing the competition with our home industries. In fact the rush after markets by all the European nations will decrease even the sterling prices of these imports. This as well as the apparent increase in the purchasing power of rupee in respect of imports by its psychological effect

on the people, will increase the demand for imports; and as the manufactured articles follow the law of "increasing returns" these imports will increase more and more injuring seriously our own industries. On the other-hand the exports will rise in their sterling prices, but being materials essential either for human life or for manufacturing industries, demand for them is not very flexible, and so they will continue selling as ever, India receiving the same rupee price. But as imports increase the raw materials will be in greater demand, and as these follow the law of "diminishing returns" the cost of their production will increase and their price also will increase. Thus while the rupee value of imports will decrease that of exports will increase. The cost of necessaries of life in India will increase and that of luxuries will decrease. The cost of raw materials for Indian industries will increase, while the price of their products will by competition of foreign goods decrease. The industries will surely be injured, and the net result will be that, while the cost of living will increase, the earning power of the people will decrease—a result exactly opposite of that which is so badly wanted in India. One does not care for the cost of living, if he has ample funds to meet it. What is wanted to allay disturbance is not a lowering of prices (which also can not thus be secured)

far as the necessities are concerned) but an increase of the earning power, for what is the use of lowered prices, when money for the purchase at those lowered prices also is not available. It is said that any effect on Indian industries that might be produced will be transitory. This ignores two fundamental points. One is that the action of the laws of increasing returns and diminishing returns is likely to make this effect permanent, and 2ndly that the question of opportunity is of very great importance in commerce, because it is human habit to continue to deal with those with whom one has been accustomed to deal. These two tendencies combined will work towards making the effect on Indian industries and trade lasting.

Thus Professor Basteable remarks (International Trade, page 31):—"The same considerations may apply to explain the predominance of a manufacturing country when once attained, since its productive power is steadily increasing, and thus extending the field of international exchange to the dismay of the native producers and manufacturers in other countries." Again (page 46) "Should it happen that the law of increasing returns is applicable to the production of the country's exports, it gains by continuous augmentation of its industrial efficiency. The present position of England in respect to its

foreign trade is somewhat of this kind." The following quotation from the Times' Trade Supplement, given by the Leader of April 8, 1920 will show that people in England were preparing to take full advantage of this opportunity :

"Apart from the possibilities of international action, the hope for arresting sterling depreciation lies in increasing production in the United Kingdom with consequent larger shipments abroad, so that our former position as a creditor country may be ultimately restored. The immediate effect of the new sterling rate of rupee exchange should be that of stimulating our exports to India, while restricting our purchases therefrom. The report of the Committee referred to in detail elsewhere naturally avoids laying great stress on that point, but it is one which appeals to our manufacturers," But the Committee considers the operation of these effects to be transitory. "If so, vigorous efforts should be made to utilize the opportunity to regain the export trade with India, some of which we lost by our absorption in war works and some since the Armistice by industrial unrest." The results of these efforts have already been noticed.

It might be said that even if imports increase then the payment of specie to the exporting country will increase its currency, and so also the prices

there, and will automatically discourage exports therefrom (or imports into India). But this is not true in case of the great investing countries of Europe, specially England with whom most of the Indian trade is carried on, because the increase of specie is not allowed to come in, but is invested abroad thus increasing the wealth and strength of the country as well as its claims upon others. On the other-hand in India exports do not decrease in spite of high prices simply because they consist of foodstuffs and raw materials, provided, of course, that the purchasers have got the power to purchase.

Further why should anybody want to lower the prices at all in this way? It has been shown elsewhere that the prices in India have risen to about only one-third of the rise in Europe. Are steps about exchange being taken there also? In India the rise has been comparatively moderate, and due to, as Mr. Dalal would say, "genuine inflation." It is recognised on all hands that a moderate rise of prices is good for the industrial progress of the country. It gives an impetus to economic activity; induces the establishment of new industries, and generally has an enlivening effect. This has been so in the present case. Look at the enormous number of new company floatations. In such a case the remedy is not the lowering of prices

but a judicious help given to these new industries in their competition with foreign producers, and a legislative check exercised over unhealthy speculation. Then the increase in the earning power of the people will be a solid gain, and wages will soon adjust themselves to the new conditions.

Further a rise in exchange does not necessarily lower prices generally in a country. It may lower the prices of imports on account of the fact, that the cost of production of these articles is calculated in terms of the exporting country's currency, and there has been a sudden change of ratio between the currencies of the two countries. Otherwise the money value and exchange value of a metallic currency are fundamentally different. Thus while the overissue of rupees during war on account of the war disbursements increased the demand for silver for coinage, and so raised the exchange value of the rupee, at the same time the great supply of the currency internally decreased the value of the rupee in terms of the commodities. Both the effects were produced by the same cause, the unusual issue of the rupees, yet both these effects are different from each other. Under the circumstances although the rupee could buy better in other countries it could buy less in India. Its essential effect therefore could not be a lowering of general prices but an encouragement of imports. A

lowering of the prices of imports would not give much relief, it is the lowering of food prices that would be welcomed. Food prices, we have already seen, will not fall but rise with a stable rise in exchange. Actually, however, there has been a fall in the prices. But this is not due to the rise in exchange but to the contraction of currency through Reverse Councils, and mainly because of the restriction of exports by the collapse of the purchasing power of Europe by economic impoverishment, thus removing our essential assumption at the beginning. The introduction of these external forces, however, can not make the inherent tendencies of the effects of a rise in rupee exchange different. The rise of exchange in 1893 restricted exports only very slightly and temporarily, because then Europe could purchase. If Europe had the power to take our goods now, then the internal prices also would certainly have risen, because the necessity of economic reconstruction would have even increased the demand for the raw materials of India.

It might be asked that if this is not the proper way to lower prices then what is? It is the contraction of currency, but contraction not through Reverse Councils, because they entail unnecessary loss to India and accumulate rupee reserves which have potential inflation in them,

but by withdrawing all restrictions on import and export of precious metals, throwing open the gold mint and keeping the old exchange ratio. Then silver would have been exported to purchase gold. The price of silver and gold would have been readjusted, and the value of gold also would have risen on account of the creation of a new demand for it, this would also have moderated the unhealthy gold prices in gold using countries, and at the same time India would have got a gold currency.

The Gold Exchange Standard is thus quite discredited. However a modern authority on money matters Mr. Hartley Withers in his recent book, "Business of Finance", praises the system as ingenious and beneficial. But its working in case of "financially dependant countries" has struck the imagination of some people so much that they recommend it for adoption by England, America, and France also. But here he is quite candid:-"Until we have abolished war no country would care to have a large balance in any centre where it might be liable to sequestration if war happened to break out.

The suggestion that the machinery of international remittances should be put into the hands of Government calls up a vision full of shuddering horror, of red tape, forms to be filled in, and

delays and circumlocation which might be very serious drag on business...the business would be carried on at a loss at the expense of the taxpayers of the countries involved". So then India with her large yearly favourable trade balance is a financially dependant country. Probably "politically dependant" includes every kind of dependence, and so that is why the present system is said to be suited to India.

But reform is coming because now British people themselves are feeling the pinch. Replying to a question in the Commons by Mr. Cockerell on April 26th 1920 Colonel Amery said with regard to the East African currency that "he regretted the absence of a single permanent basis of exchange within the Empire which would immensely help inter-Imperial trade. He had investigated the question and hoped it would be possible to secure such growth of interest on it throughout the Empire as would finally lead to practical results. He pointed out that incoherence of exchange had the most serious results. For example the rise in the Indian Rupee had affected not only East Africa but other Colonies. In Colonies like the Straits Settlements which were on a sterling basis it had enormously increased the cost of living. He mentioned that the cost of the Imperial grant in aid of Somali-land had

increased by £ 80,000 owing to the rise in the Indian rupee." (Leader of April 29th 1920). The Independent of March 18, 1921 has the following. "A message from Nairobi states that the Legislative Council has adopted the majority report of the Currency Committee in favour of the abolition of the rupee and the adoption of sterling currency, and the redemption of rupees with Florin notes. By this means a settlement of the crisis is expected." The recent great fall of exchange and the deadlock in imports has exercised the British merchants also very much, and is convincing all parties of the inherent instability and injurious effects of the system. But how much has it already cost India! And how much more it will cost till the happy day comes only God knows!

REFORMS REQUIRED.

GOLD CURRENCY.

By now it will have become perfectly clear that India is quite suited and prepared for a gold currency. She possessed it before 1835 and has claimed it ever since. In currency it is the user who is the best person to say what sort of currency is necessary for him, for then and then only can confidence, which is essential for a sound policy

in this respect, be inspired. The circulation of rupees and sovereigns side by side as full legal tender monies has also been seen to be injurious to national interests. The so called Gold Exchange Standard also has proved to be harmful to Indian industry resolving itself ultimately in practice into a disguised silver standard.

The only other alternative is the one that has been adopted by practically all civilized countries, and even by many backward ones. The following are some of the great advantages of a gold currency : —

(1) Gold is an international substance and so the price of gold has an international stability, and is not dependant upon the whim of any particular government as is the case of silver, the price of which is generally affected very much by the demand of India and the attitude of America.

(2) The yearly supply does not affect the huge existing supply of gold in the currencies of the world as is the case with silver, which is now used mostly for arts. So gold is a more stable and a better monetary metal than silver.

(3) As gold forms the currency of most of the countries its fluctuations would be the same all the world over except where political considerations complicate the position.

(4) India with a gold currency will no more have to face the problem of Home Charges with a changing rupee exchange, because the revenue will be received and Home Charges will be paid in terms of gold.

(5) A gold currency will increase the financial strength of India by reducing the Indian national debt through the release of the reserves in London.

(6) A sound gold currency will decrease the hoarding habit whatever of it may be in the country.

(7) The great stability of the natural and automatic system will increase the confidence of the money-market on its own basis, and will lead to an immense development of credit.

(8) Gold is subject to wear and tear less than silver, and carries greater value in a given volume.

(9) It is much more pleasing and attractive than silver and its introduction is likely to have a psychological effect on the minds of the people, infusing a new enthusiasm and energy, and giving them a push on the road of industrial development.

It has already been shown that the bogey of hoarding is unreal, but this much is certainly true that the Indian demand will slightly

raise the value of gold. The rise will not be much because the immediate Indian demand compared with the huge supply thereof will not be disproportionately great. But this rise will have no bad effect, 1stly because gold price being an international price it will rise all the world over, and so the trade of no one country will be injuriously affected, 2ndly gold being merely a measure of value no body would be injured by India's taking her due share, the only result will be that the capacity of the measuring glass will be a little increased, otherwise the wealth of the countries in terms of commodities (for those countries whence gold is taken will get other goods in exchange) will remain the same. In para 60 the Committee also has recognised this. It is sometimes said that India has not much internal supply of gold, but that is not necessary for a gold currency. England also has none.

Therefore gold is the only standard currency for India. The coin should be the sovereign, or if there be administrative difficulties about it, then a gold mohur of exactly the same weight and fineness. As most of the Indian trade is with England this will harmonise the two currencies very conveniently.

THE POSITION OF THE RUPEE.

The rupee should be reduced from the unlimited legal tender money position to that of a subsidiary coin. So long as gold does not get into circulation sufficiently the rupee, whether of silver or of nickel, may be allowed to be legal tender up to Rs. 100/- only, but this provision will not be required for a long time, for under the scheme suggested below gold will get very soon into currency. The ratio between the rupee and the sovereign should be as 15 to 1, 1stly because it will be in harmony with the subsidiary coinage of England, 2ndly because the relations of creditors and debtors at present existing will not be disturbed, and 3rdly because any very unfamiliar change and its unsettling effect will be avoided. But all coinage of silver rupees must be stopped and a new

NICKEL RUPEE

should be issued. The great objection against this rupee is that it will decrease confidence in the note circulation.

This argument can be of weight only when gold is not given, but with gold as the only unlimited legal tender the confidence will be restored, as notes also would be redeemable in gold. On the other hand a nickel rupee has some very important advantages : —

(1) Its ratio as a subsidiary coin will be absolutely safe.

(2) It will not compete with note circulation. Paper as well as nickel are not very valuable, and from this point of view it is practically immaterial whether one gets nickel rupees or notes, because the money value of both is far above their intrinsic values, which are altogether negligible. On the other hand this will rather encourage note-circulation, 1stly because notes will be lighter to carry, 2ndly because notes will be redeemable in gold. Thus the rupee will be reduced to its proper function of a subsidiary coin.

(3) As a subsidiary coinage it will not be costly, and can be easily introduced.

To effect the above reforms the Government should not sell Council bills and Reverse Councils. Any needs of the Secretary of State for the time being should be met from his cash balances and the Gold Standard Reserve. The silver resources of the Government should be used in purchasing gold and nickel which should be minted into sovereigns and rupees. It should stop all coinage of silver and should refrain from issuing any silver rupees, but should issue nickel rupees in payments of Rs 100 or less and gold or sovereign notes for the excess for paying its own expenses, but the Government may on the request of the receiver pay a greater

amount of nickel rupees than prescribed in the limit in place of the gold notes. It should issue a notification that the payment of taxes also will be received in the same form, i. e., up to Rs 100 nickel rupees or silver rupees, for more than that gold or sovereign notes. The nickel rupee should be legal tender up to Rs 100. The ratio of rupees—silver and nickel both—to sovereigns should be as 15 to 1. It should prohibit all export of gold, and the gold mint should be thrown open for the public.

The result will be that silver rupees will be driven out by nickel rupees from the circulation according to Gresham's Law, nor will they be paid in taxes when the cheaper nickel rupees will be available for the purpose, nor will they be exchanged for gold at the treasuries for the Government has undertaken no such obligation, so their only profitable use will become to be exported to purchase gold from any market that may be willing to export gold, because their use for being exchanged into nickel rupees—to which there would be no objection—at the treasuries, or their use as currency will become costly to the holders. The danger to be provided for in this case is that people might be induced by the prospect of getting gold from the Government to try to cash their notes for gold. In this connection the following

points should be considered :—

(1) If the Government has sufficient gold resources and so redeems notes in gold, confidence in its currency policy will be soon restored, and necessities of business will act against any great reduction of notes because :

(a) Notes of higher denominations will retain their advantage of portability, and so business men will not like to encumber themselves when they would be able to get gold in case of necessity.

(b) Retail work being still in rupees, silver rupees being melted and exported and being un-issuable from the treasuries, business men would like to cash their notes for nickel rupees in much larger numbers than the prescribed limit of legal tender.

(c) Universal notes, specially the rupee, the 2½ rupee, and the 5 rupee ones, will not be cashed in large numbers, because the nickel issue being in its infancy will not be sufficient to supply the place of the whole silver circulation at once, and so these notes will come into greater use together with the nickel rupees, when the silver ones are being exported.

(Besides :)

(2) Issue of gold coins and stopping of all

export of gold will decrease the rush after sovereigns, as sovereigns will not be meltable into bullion owing to legislative prohibition, and for currency sovereigns will be as good as 15 nickel rupees, or in case of large amounts will be less convenient than currency notes.

(3) By exchanging rupee notes into sovereign notes the Government will give another cause for confidence, for the very face of the new notes will assure the holder of his power to get gold at his pleasure.

(4) Now the public wants the sovereign because it fetches a greater number of silver rupees (one of the unlimited legal tenders) in the market than the number of rupees which represent its currency value, so that it would be profitable to get sovereigns from the Government in exchange for notes, if the Government be willing to issue them, but then one sovereign will fetch only fifteen nickel rupees in currency whatever be its value in silver bullion, for from the currency the silver rupees will be driven out; and as nickel is not so valuable and as the nickel rupee would be a limited legal tender mintable for the Government only there will be no complication in the exchange relation of the sovereign and the rupee, as there is in the case of the silver rupee.

(5) Above all the silver rupees will be upon the hands of the merchants, and so their attention will be diverted to the other method of getting gold, *i. e.*, by exporting silver and importing gold.

(6) Should the Government still expect or find a huge rush after cashing notes for sovereigns it can

(a) fix a period of moratorium during which the rupee notes may be exchanged into sovereign notes, but may not be redeemable by sovereigns, although their redemption by nickel rupees may be allowed at the option of the holder. After the lapse of this period the sovereign notes so issued may become redeemable by sovereigns, but in the interval opportunity will be gained to export silver rupees and import gold to be minted at the open mint, and thus the rush for the Government sovereigns will not be great.

(b) put restrictions over cashing notes as was done during the war, and the public will co-operate with the Government in its attempt sincerely to rectify the currency policy.

(7) Whatever notes be cashed in gold in the rush, the gold will again have to be paid into the Government treasuries for taxes, which will be receivable in the prescribed ratio, and so nickel rupees will not be allowed to be paid in

unlimited amounts in the payments of taxes and so gold or gold notes will again return. This will have another effect also. It will create a demand for the notes of the higher denominations upto Rs. 100 because that being the limit of the rupee payment, the excess can be paid either in the form of gold, or in the form of sovereign notes, or in the form of notes of higher value than Rs. 100. This together with the tendency indicated in (1), (c) will tend to popularise the note issue and counteract its contraction.

This operation has one very great advantage, that it does not require to wait till the value of silver rises above the fixed exchange ratio, because the metal used to drive silver out of the currency is not gold but nickel, and so it can be undertaken at any time. Thus a gold currency will be easily established.

A nickel eight anna piece

also should be coined in place of the silver one, and should be legal tender only up to 5 Rs. and when the limit of the rupee tender is reduced to Rs. 15 then the limit of this piece also should be reduced to Rs. 1/- only.

Reserves and the National Debt.

In the meanwhile the Secretary of State should

realise all his securities in the Gold Standard Reserve and the Paper Currency Reserve gradually, and reduce them into fluid gold. When the gold currency has established itself in India the Secretary of State should use these assets in liquidating as much of India's national sterling debt as possible taking care to pay off those bonds which bear a high rate of interest first. On March 31st 1920 the securities in the Paper Currency Reserve and the Gold Standard Reserve in England were valued at £44,849,864-11-4 and £36,343,616 respectively totalling £81,193,480-11-4 and India's sterling debt there on the same date was £170,989,013 (The Indian Year Book for 1921). Thus a substantial portion of the sterling debt can be so paid off. But before doing so he should deduct from these assets so much gold as when combined with the gold and any silver waiting to be turned into gold in the Indian branch of the Paper Currency Reserve may form at least 40 p.c. in gold of the gross circulation of the notes in India and should transfer this portion at once to India. On 31st March 1920, however, against a gross note circulation of Rs 1,74,52,00,000 the coin and bullion reserve amounted to about 87,66,00,000 Rs. which is much more than 40 p. c. (The Indian Year Book for 1921). The rest of the assets of the Paper Currency Reserve also should

be utilized in payment of the debt as said above. There will be no danger to note issue, because the very fact that this reserve was kept in London showed that it was not wanted for cashing notes. If it be said that silver which was purchased from this reserve in England was wanted for the Paper Currency Reserve in India, then 1stly this silver also was not always bought from the resources of this Reserve, 2ndly that silver was wanted not for cashing notes but for paying Council bills which will be stopped under the present scheme.

As to the reduction of securities thus caused in the Paper Currency Reserve they should be replaced by a new issue of Government of India bonds bearing the same interest as of those securities which formed the Indian Sterling debt so paid off. •Then a policy of

Conversion loans and sinking funds

should be instituted in the following way. The interest that is now paid for that portion of the sterling debt which will have been redeemed under the above scheme should be formed into a sinking fund with two branches. One branch should consist of the interest falling due on the new issue of bonds to be placed in the Paper Currency Reserve. This should be used for

lending to Railways or Native States, and the new India bonds in the Paper Currency Reserve should be replaced gradually with these bonds of Railways and Native States, the new India bonds so replaced being transferred to the sinking fund bag. This will have several advantages : (1) Those investments of the Paper Currency Reserve which will be dependant upon the payment by the Government itself will decrease. Either these investments will not be touched, or if the Government is in sufficiently great difficulties to require the realisation of these, then it is better if they have to be realised from somebody else than the Government which is itself in want of funds. In the meantime, however, it may be safely expected that these securities will not be touched in view of the strong cash resources of the reserve, also because of the confidence that will be inspired by a gold policy and the sinking funds. This is also evident from the fact that such a huge proportion of the reserve is at present kept so far away from the place of redemption as England is. Moreover even if any such difficulty should at any time be experienced, then the strengthening of the credit of the Government through the policy of these sinking funds will enable it to raise a temporary loan on favourable terms; such a chance, however, is very remote. And in course

of time these Government bonds will be replaced by Railways' and Native States' bonds and so in times of difficulty also the Government will be safe.

(2) The interest or profits on this portion of the reserve will increase, because the small-interest bearing Government bonds will be replaced by large-interest-bearing Railways' or Native States' bonds, and so this sinking fund also will keep on automatically increasing by the addition of these interest receipts to the interest yearly set apart by the Government under the fund in payment of its own new bonds' interest.

(3) This will supply the place in a way of capital outlay. Otherwise the Government should stop borrowing loans for railways in England. If the railways want money they should go themselves to the market, and should not increase the liabilities of the Government for interest, thus increasing the Home Charges. Any money that the Government may want for its own capital outlay it should raise in India, and if it is unable to do so then it should postpone the scheme, but should not on any account increase its sterling liabilities. It is probable however that under the above policy the Indian money market itself will have plenty of money to lend to the Government. Indeed with a consistent adoption of the policy

India will begin even investing abroad.

When all the new India bonds of the Paper Currency Reserve have been so replaced this branch of the sinking fund also should be merged into the second one and thenceforth the interest received upon the investments in the Paper Currency Reserve also should be paid into the second branch.

The second branch of the sinking fund should be formed from the remaining portion of the interest charges thus saved, and this should be used exclusively for the gradual redemption of the remaining portion of the sterling debts of India. This portion of the work should be further helped by raising loans in India whenever it is possible to do so at favourable terms, thus trying to reduce the whole sterling debt into a rupee one as soon as possible. If any saving of interest be effected it should not be saved for the treasury balances but for the increase of the sinking fund.

HOME CHARGES.

The above policy will reduce these very much. But the same process should be continued in other ways also. The management of the Indian

sterling debt should be made over to the Imperial Bank which has an office in London also. The stores should be purchased in India, and that portion of them which has to be purchased in England should be paid for in India or should be paid through the Imperial Bank, which should also undertake to make payment on behalf of India in respect of pensions and military charges in London. At the same time, however, these Charges should be reduced by a greater employment of Indians, and should be converted in terms of the Indian currency which should not be difficult, as India also would have a currency of gold practically identical with the British gold currency. Thus the Secretary of State shall be divested of all agency functions, and shall have only political duties, in respect of which he would be paid by the British Government. It is not a mere question of detail, but a question of principle is also involved in this change. The bank performing these functions will remain under the control of the Government of India, whereas the Secretary of State was above this control, and in fact controlled the Government of India; and his being surrounded with British financial interests in England was not very conducive to Indian interests. Indeed the financial policy for India dictated by him could not but colour

also his political policy with regard to the Government. Under the proposed arrangement he will be quite free to guide the political policy of India on true British lines, while the financial interests will be safe in the hands of the Government of India who shall be in touch with the conditions prevailing here.

SPECIAL ADVANTAGES.

The introduction of the gold currency under the above conditions has some particular advantages at the present time :—

(1) At present the greatest free market for gold is the United States of America, and so part of the gold for India will come from that place and part from Australia etc., so that the gold resources of England will not be taxed very much.

(2) India will get part of her gold from Australia and South Africa whom Britain can pay in exports thus leading to an increase in the British productive powers, which will require a greater supply of Indian raw materials also, thus helping the Indian export trade as well. Australia and South Africa will themselves have to take payment for their gold from some body in the form

of commodities, and they can not do better than taking it from Britain.

One sometimes hears an objection that experience has taught that a gold currency replaces

NOTE CIRCULATION.

But this experience was gained at a time when there was no gold mint open to the public in the land, and the issue of gold was absolutely a matter dependant upon the good pleasure of the Government. No body would like to lose gold in a case when he cannot be certain of getting it whenever he wants to get it. Naturally therefore he would like to pay notes and receive gold. But with an open gold mint and with notes redeemable in gold this incentive to gold hoarding will be taken away, and one would prefer to keep notes in comparison with gold because

(1) notes bear numbers which make their identification easy and so are safer than the metallic coin.

(2) notes are lighter, and in case of large denominations carry greater value than gold, and so are more portable.

In future the notes should be printed in terms

of sovereigns, and all old notes received in the treasuries should be retired in favour of a new issue of sovereign notes. This will give greater confidence in the issue, as the obligation to redeem in gold will be patent on the very face of the notes. This does not apply to notes of a lower value than 1 sovereign, which should continue as at present. But one rupee notes and 2/8 rupee notes should be gradually and conveniently retired, because (1) the necessity of rupees circulating up to Rs. 5 will strengthen the position of the note issue which shall not be in excess of the currency needs of the country, (2) issue of nickel rupees in exchange for them will not be very costly, and will give the advantage of a stronger note issue. This should be done gradually so as not to affect the reserves in a way to interfere with the other aspects of the policy.

As to the question of entrusting the note issue to a bank, while there is the advantage in the proposal that a bank is much less likely to overissue notes than a government because

(1) it would not like to close its business by spoiling its credit in any case, (2) it is a private institution which can be held to its obligations (3) it is likely to issue notes only in case of genuine trade demands, at the same time there are also important disadvantages, viz :

(1) even with government's countenance a bank can not have such a security as a well established government has, (2) the government loses the profits of its note issue.

This last consideration is important in case of India in view of the policy of sinking funds above sketched. Consequently for the present at any rate note issue should be retained in the hands of the Government. In addition to these a limited note issue on the security of good commercial bills should be tried as suggested by the Currency Committee, but it should be done through the Imperial Bank, as a bank can look after such a security better than a government. The Government's share of profits therefrom should be paid into the 2nd branch of the sinking fund.

Mint Charges.

Another question is whether the coinage of gold should be free or a charge to cover the expenses should be made. It has been argued that a mint charge will remove the automatic freedom of the coinage. This it would have done if the rupee also had been maintained as unlimited legal tender money, with the obligation on the Government to issue as many of them as may be required. But now gold will be the only unlimited legal tender

money, and so those who shall stand in need of funds will perforce have to use that currency. Indeed when the money market becomes tight merchants and bankers will even take their ornaments to the mint to help their business and to reap the high rates of interest.

As to the argument that this coinage charge will fall on the consumer, we should see what its effect would be. So far as it increases the prices of exports it will be borne by the foreign consumer who will find it difficult to do without our exports. So far as it will increase the prices of imports by increasing the cost of specie required to pay for them (which will not be very probable as we export more than we import) it will be borne partly by the Indian consumer and partly by the foreign producer, because our imports consist of manufactured articles the demand for which is flexible. It is true that the internal prices also will be a little affected, but as no profits are to be made from the coinage the change will be very slight. Thus in Australia also a charge is levied. However this is not the essential portion of the scheme, and is a small matter one way or the other.

International currency.

The great hinderances to the evol-

inter-national currency have been the national pride of every nation in its own form, the distrust of each other about the maintenance of the standard fineness and weight. But if each Government retains the form of its currency intact, and only changes the weight and fineness of its principal currency gold (leaving the subsidiary coinage untouched in this respect if so liked , so that the gold currencies of the countries associated in the scheme are simple multiples of each other, then the national pride also can be retained, and a great step in facilitating trade can be taken. This will also make the value of gold more stable by reducing the gold resources of all countries into a sort of one fluid reserve. As to the question of reduced weight and fineness a government can undertake the obligation to issue new coinage instead of its coins defective in weight or fineness which be presented to it by merchants or government of another country; and such a form of coinage should be easily evolved, as should make clipping immediately discoverable. Moreover the extended use of exchange bills and other credit instruments has reduced specie movements very much leaving its essential function to be a measure of account, which will certainly be facilitated by the above proposal. Jevons suggests an International Clearing House also, but it should be worked by Banks and not Governments. From

the above point of view the adoption of sovereign as the principal coin of the Indian system is advisable as it is the gold coin of the largest value at present.

It is hoped that the above proposals will lead to a great financial strength in India, developing its trade and industry and making its people more energetic more well off and more contented than now.

Peace be to all.

श्री राम

APPENDIX O.

PRINCIPLES OF CURRENCY.

No single person in society can produce all the things required by him, *viz*, clothes, caps, shoes, buttons, books, paper, ink, pictures, tables, chairs, all kinds of grain, pulses, milk, honey, etc., etc., by his own labour. Each requires the assistance of the other, and exchanges the products of his labour with those of others producing different commodities. This exchange may be commodity for commodity according to the needs and conditions of individual cases, thus it may be between clothes and grain, caps and books, picture and honey etc., etc. The relative values of commodities in each transaction have to be separately determined on each occasion. This is called **barter**. But this is tedious and hinders the growth of large transactions. Consequently one common measure is evolved in terms of which all commodities come to be valued; their values become more or less customary, well known to all the members of one particular village or society, subject, of course, to any reasonable variation due to a decrease of supply. Thus till very recently it was, and at places it may be even now, very common in Indian villages to purchase commodities with grain. This common

measure which can purchase all commodities is named **money**. This is stored as wealth, for storing of all commodities may be unprofitable, as some may perish, some may not be required, and so one stores this one thing which can give him what he likes whenever he wants anything. The borrower also borrows this, which can meet all his needs. This necessitates that the **value of money** should remain stable, so that the borrower may pay back what he has taken, for if there is a rise of its value in the interval *i. e.*, the same amount of money buys a greater amount of commodities, then the debtor will lose for he will be paying more commodities than he borrowed by returning the same amount of money; in case of a fall of value reverse is the case. Such rise and fall will be frequent with grain which depends upon a good or bad monsoon. Again the necessity of storing requires that money should not be perishable but grain is. Storing also requires **divisibility** into any number of portions so as to be able to buy things of all values. As it is a general measure of value it is necessary that it must be **homogeneous** in quality otherwise values in terms of the common measure also will vary according to its qualities. This one quality should be **cognizable** on the face of it by an ordinary person also otherwise there will be frauds. The use of this as common measure

of value in all transactions all over the country requires it to be **portable** also, *i.e.*, it must not be bulky for small values. These qualities have been found to exist in metals much better than other things. Amongst metals also **gold** and **silver** have suited best to the needs, because their appearance being attractive people want them in any quantity they can get for ornaments, plates, etc. This gives them extensive utility and value, besides it keeps an additional supply of these metals in these forms, so that a new demand is not so likely to raise their price so much by the supply having failed. Moreover these metals carry great value in small bulk. Other more valuable metals are not so plentiful in the world as to supply the needs of the world's currency. Of these metals again **gold** is preferred because it is more beautiful, does not rust, is more valuable and receives a better impression. Consequently the countries of the world have adopted it as the principal money and have given silver the place of subsidiary coinage required for retail transactions. This action has given gold one great advantage over silver; its price is more stable than silver, because its supply in the currencies of the world is so great comparatively with its needs for arts and industries that an ordinary new demand does not make much difference, while silver is required more for arts and

industries than for currency, and for this purpose the conditions of demand and supply are changing, because use in arts etc., is a consumption as of other commodities while in currency the metal remains available intact, and so the price of silver is not so stable.

Money as money is required merely to buy things and not to be consumed itself. Consequently if it can buy the same amount of commodities for a person as its customary or row legal value indicates then it does not matter for him whether its quality is good or bad, and so he is not so careful in looking to its quality as he is in the case of other commodities. To prevent frauds, therefore, the currency is given into the hands of the state which stamps each coin, or one piece of metallic money, which is the unit or some multiple or even portion of the standard unit of money—a unit there must be in all measures whether of weight, length, or value—with its stamp, so that no other person may issue such coins, and such stamping is a guarantee of the coin being of good value. A coin is generally circular because a round shape does not wear and tear so much as do the corners of other shapes. The stamp is so designed as not to be counterfeitable, and such as to make clipping easily discoverable.

The money used in a country or current there is called the **currency** of the country. A currency generally consists of two classes of coins : those which are used in payments of any amounts or **unlimited legal tender**, and those which are used in payments of limited amounts, *e. g.*, pices can be paid only up to rupee one, this is called the **limited legal tender** ; the former is the **principal coin**, the unit of value, the store of value ; the latter is the **subsidiary coinage** designed to meet the need of small transactions by dividing the standard unit into even portions. The former is generally a full value **standard money**, *i. e.*, its currency value is equal to its metallic or bullion value except for a small coinage charge, because it is also the store of value, and so any deduction from it will be a tax on the wealth of the people, and also because it is used as bullion in settling international transactions, when such a deduction of value would be very unpleasant and complicating; it being of full value, the mint is open for its coinage to the public also; anybody may take his metal to the Government mint and get it coined either on paying a small coinage charge or without it as the case may be. The latter are generally **token coins**, *i. e.*, their currency value is more than their bullion value so that they can not be exported to meet international transactions,

so that the Government is not obliged to mint them in large quantities. They serve only limited needs, and do not form a store of wealth, and are not minted for the public otherwise everybody would take advantage of the difference in value, and there would be no end to the minting.

In a currency the unlimited legal tender coin may be one or more than one, in the latter case it is called a **multiple legal tender system**, *e. g.*, in India sovereign, rupee, silver 8 annas piece, are all such (but the last two of them are not standard coins). A system of currency is **mono-metallic** where it employs one metal for its standard coin or the unlimited legal tender; it is **bimetallic** where it employs two metals for the same purpose. The bimetallic system is employed because of its **compensatory action**. Suppose silver becomes more valuable than the ratio of gold and silver in the currency of a country. Then that country will import gold, buy silver with it and will export silver, because the people of that country can use either metal as unlimited legal tender. currency and both can be openly minted at the mint for the public. The result will be that this new demand will increase the price of gold, while the new supply will decrease the price of silver, or the ratio of silver and gold will tend to

swing back to its former position, and the value of the currency as a whole in terms of commodities will be more stable. But such effect can be beneficial when all countries adopt it, otherwise other countries reap the advantage by the moderation of the world prices of the metals, while that one country alone suffers the loss by always having the cheaper metal for its currency. This action of the merchants is dependent upon what is called **Gresham's Law**, which states that of two unlimited legal tender coins in a currency that one which is cheaper drives out the one which is more valuable. The reason of the cheapness may be the decrease of weight by wear and tear or for any other reason, or may be the employment of two metals one of which is cheaper than the other. As money in use serves as a measure of value only so it is unimportant of what kind it is, provided it carries the same currency value; consequently people use in transactions the cheaper coin and melt or store the more valuable one, thus the cheaper one only appears in the circulation. Upon these principles the bimetallic currency of France was changed from silver into gold between 1849 and 1869; and similarly the Indian currency also could have become of gold when the price of silver rose so much that the intrinsic bullion value of the rupee was above its

currency value in spite of its being a token coin.

A government having exhausted its metallic resources and wanting money for its expenses issues other currency on paper to represent the old one. This becomes **representative money**. The value of this currency depends upon the credit, power and stability of the particular government. Its profits make it a regular affair. It may be **convertible**, *i. e.*, the government may promise and should actually be ready to pay metallic currency in exchange for the representative money whenever the holder may so desire, in such a case the government keeps a reserve as a bank does against its deposits, and the purpose in such a case is the acquisition of profits by the investment of that portion of money which is not actually kept in the reserve, because as the whole circulation of notes is not likely to be presented for being cashed at one time a portion of gross circulation is enough to meet the current redemption needs. Or it may be **inconvertible**, in this case no reserve is kept against it, and its currency depends solely upon the belief of the people that the government is sufficiently stable and powerful to enforce its acceptance as currency; this is much more liable to inflation and depreciation than the former variety, because it carries less respon-

sibility with its issue, and so there is greater inducement to issue it in unlimited quantities than in the other case. When in war time a government is in difficulties it conserves its metallic reserves for purchasing goods from other countries who may not accept its mere promises to pay or notes, while for internal use it issues paper. At such times it may issue so much paper money that the people may become suspicious of its ability to redeem it, then they give less commodities for it than they used to do. The currency becomes **depreciated**. When there is such a huge issue of notes to meet government needs without the trade of the country requiring it there has been an **overissue or inflation**. When the metallic portion of a country's currency becomes insignificant in proportion to the paper one for any of these reasons, then in terms of exchange also the whole currency becomes depreciated, *i. e.*, the other countries do not expect to be paid in full in gold, but in legal tender paper, and as the gold in that country carries a premium in terms of paper money, *e. g.*, the sovereign in gold may be worth 24 shillings in paper, and as paper is the present currency there, other countries count one unit of that currency as one unit less that portion of it which will be paid as premium in acquiring gold, and so the **exchange ratio** falls

against that country in which there has been an overissue of paper. Several safeguards are employed against an overissue of paper. The paper currency may be entrusted to a bank and as the bank does not wage wars, but is jealous of its financial reputation, and being a large well established bank it does not like to issue more notes than required by trade conditions. Still further its power to issue notes is controlled by law, *e. g.*, sometimes a tax is levied on all issues above a certain maximum amount. Another principle is not to issue notes of small denominations, and to meet the needs of small transactions metallic currency must circulate, so that the proportion of paper in currency does not become so great.

Another class, **credit currency**, has been brought into use by necessities of large transactions and stability of commercial life. This depends for its acceptance upon the credit of the person or firm in whose name they are issued. Such are hundis, bills of exchange and other negotiable instruments, or documents which circulate from hand to hand without being the currency of the country. Cheques of banks when payable to bearer become such currency in practice and may be endorsed by the payee in favour of another. Of these instruments **bills of exchange**

are used for international trade, and help to settle accounts between several nations without passing specie or metal. Merchants in country A import from country B, which imports from country C, while C in turn imports from A. A has to pay B, B has to pay C, and C has to pay A. Merchants in B issue bills of exchange upon their debtors in A. C takes these bills in payment of its own dues from B and settles its own account with A by sending these bills to its creditors in A who get their payments from their own countrymen. Only the difference remaining in accounts is settled by payment of specie. The matter is generally arranged through exchange banks.

When a country A has to pay B more than B has to pay A, then the **trade balance** is against A and in favour of B. Demand for bills of exporters from A is greater (because the importers are more than the exporters) than the supply, their value rises, *i. e.*, one unit of B's currency is worth more in terms of A's currency than it used to be. This excess is not more than the charges which will be sufficient to transfer the usual amount of A's currency to pay one unit of B; when the excess is equal to these charges it is called the **export specie point**, *i. e.*, at this point specie itself will be exported. Where the bills

give a period of credit also before they can be realised the interest for the period is added, again if the currency of A is depreciated then this depreciation also will add to the bill. In all these cases the **exchange** is against A, *i. e.*, one unit of A's currency is worth less in terms of B's currency than it used to be, while it is said to be in favour of B that is one unit of B's currency is worth more in terms of A than it used to be. What is specie exporting point for A is **specie importing point** for B.

When such transfers of specie increase the volume of money in B, people in B are likely to value their money, of which they have plenty, less, and to purchase other commodities more. This increases the value of commodities there; A buys less at the new higher prices. On the other-hand lack of currency in A makes people there value money more, and the sellers are eager to sell to get money, the prices fall and B buys more there at the lower prices, and so the trade balance between A and B tends to adjust itself towards an equilibrium. Other factors, however, may prevent its doing so. B may not allow the specie to come in, but may invest it in A or any other country, which besides keeping up its trade will bring interest, and will make it owner of properties in other countries also. If

B's products follow the law of increasing returns *i. e.*, for every additional unit of capital and labour employed a greater return is obtained than for the previous ones, (such a thing occurs in those processes of production in which the efficiency of organisation increases with the size of the business, this is more so where the dependance upon nature is little and upon the brain of man more such as machine made manufactures), then the increase of B's exports will lead to a fall in prices and not a rise, so the trade will extend further and B will get richer and richer. Such is the case of England. If exports follow the law of diminishing returns, *i. e.*, for every additional unit of labour and capital less return is obtained (such is the case where dependance upon nature is great as in agriculture, mining etc.) then the extension of trade increases the cost of production and so the price, this rise of the price tends to retard trade unless the products be absolutely essential for the foreign countries, in which case they will continue to be exported in spite of the rise of prices. Such is the case of India. In such a case extended export trade is a sign of a decreasing ratio of return and so decreasing prosperity per unit of labour and capital, while in the other case the increase of exports denotes increasing ratio of return or increasing prosperity per unit of labour and capital.

With the agency of **banks** the same amount of currency is enabled to work a greater number of transactions or is said to be made more **active**. The banks collect as deposits that portion of the currency which would have been stored by the people, this they do by holding out the inducement of paying interest upon such deposits. To find this interest they lend out a portion of these deposits on a higher rate of interest than they themselves pay. Their profits so acquired form the price paid for their valuable function. The banks keep a proportion of the deposits as a reserve to meet the demands of those depositors who may want cash. Many of the calls are mere transfers from one account to another through cheques and do not require cash. If the reserve is small there is a danger of failure by a sudden large call of depositors. Custom and experience generally fixes a proportion of the deposits as a safe reserve. The banks give more interest on fixed deposits, than on savings bank deposits, because in the former the period of notice which has to be given before the money can be withdrawn gives the bank a sort of security against a sudden call, and so the bank is free to invest that sum in long term high interest bearing loans. The longer the period of this notice the higher is the interest. Thus by means of these deposits

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the same amount of currency is enabled by the banks to do more business than before and there is an indirect increase of currency.

APPENDIX M.**A sketch of the Gold Exchange Standard.**

The sovereign, half-sovereign rupee and half-rupee are unlimited legal tenders. The quarter rupee, $\frac{1}{4}$ of a rupee and other nickel and copper coins are legal tenders up to Rs. 1. No coin in the system is minted for the public. The sovereign and half-sovereign, if required, have to be imported, while all the other coins are minted for the Government only. The Government does not favour any large import of sovereigns, and adopted the policy of diverting sovereigns enroute to India to England. Thus the difficulty of finding sovereigns has made rupee the principal current coin of the system, and the rupee with the currency notes supplies the currency needs of the country. But the currency standard of other countries is gold. Formerly the ratio between the sovereign and the rupee was determined by the respective market prices of the bullions. About 1873 a serious fall in the price of silver began which injured the finances of the Government also. The Government has to pay interest upon the Indian sterling debt, pensions and furlough allowances, price of stores purchased for India, India Office account, etc., in London. The Government receives its revenue

in silver but has to pay in gold, so the fall in the value of silver would require a greater amount of silver for the same amount of gold. Accordingly the mint which was till then open to the free coinage of silver was closed in 1893 and an artificial ratio was fixed by the Government between the sovereign and the rupee as 1 to 15. This the Government proposed to maintain whatever be the relative prices of bullions. The rationale of the ratio was that the gold price of the rupee must be so much above the value of the silver in it that it should not be rendered profitable to melt rupee by a fluctuation in the price of silver, so that the Government may not be compelled to coin unlimited amounts or to change the ratio constantly. The policy evolved by the Government to maintain this ratio depends upon the keeping in London of a branch of Paper Currency Reserve, and a Gold Standard Reserve in addition to the Treasury balances of the Secretary of State. Every year the Home Charges are estimated in the Indian budget. The Secretary of State used to sell on every Wednesday a stated amount of Council bills, or Telegraphic Transfers the price for which was higher than that of bills, by tenders. Every such amount was notified on the previous weekday. In the interval also "intermediates" or "specials"

were sold at a price $\frac{1}{2}$ higher than the lowest price of the last weekday. Those amounts were determined with regard to the needs of the Secretary and the trade, and were limited only by the rupee resources in India. The Secretary of State however had declared his willingness to sell unlimited amounts at 1s. 4 $\frac{1}{2}$ d. These bills and transfers purchased from the Secretary of State in England were cashed in India from the Treasury balances thus paying out the Home Charges practically. In case of necessity the Paper Currency Reserve resources in India could be utilized for this purpose, in such a case an equal sum was transferred from the Treasury receipts of the Council bills proceeds to the Paper Currency Reserve in England, thus making the total reserve again full. If the rupee resources fell beyond a certain point silver was purchased in London and shipped to India for coinage. The principal point in this is that rupee being the only current currency and measure of value, and being issuable only by the Government the British merchants were obliged to pay the Government's price for it, or to maintain the ratio of 15 to 1. But that this could not always be done is clear in the text. When the exchange fell below the rate the Government undertook to sell reverse drafts from

India on London to be met from the Paper Currency Reserve, the Gold Standard Reserve and the Treasury balances there, an equal amount being transferred to the branch in India of the fund so used in London. This supply would decrease the rupee price of sterling export bills from India or raise the falling rupee exchange in terms of £, thus tending towards the fixed ratio. But against a rise of exchange there was no such safeguard; and as has been seen against a great fall also the system has not worked satisfactorily. The Gold Standard Reserve formed to inspire confidence in the Government's power to maintain exchange has been built up from the profits on the coinage of the rupee which is a token coin. Thus rupee being the internal currency, its relation with external gold one for international transactions has been tried to be maintained at a stable ratio. The recent developments are noticed in the text, but the mechanism is still the same, there has been a difference in the details only.

Blessed are they who remember Him.

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