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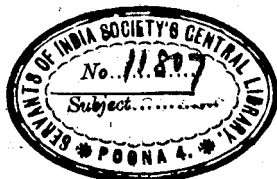
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THE CURRENCY LEAGUE OF INDIA.



BULLETIN NO. 1.

PROCEEDINGS OF A PUBLIC MEETING OF THE
CITIZENS OF BOMBAY HELD AT THE SIR COWASJI
JEHANGIR HALL ON FRIDAY, THE 13TH, OCTOBER,
1933, UNDER THE PRESIDENSHIP OF
SHETH MATHURADAS VISSONJI KHIMJI.

EHANGIR WADIA BUILDING,
ESPLANADE ROAD, FORT,
BOMBAY.

THE CURRENCY LEAGUE OF INDIA

OBJECTS.

1. To encourage and provide facilities for a systematic and impartial study of questions relating to currency, so that a currency policy best suited to the interests of the country may be evolved;
2. To educate and organise public opinion with a view to opposing the continuation of the 18d. sterling ratio as is sought to be done through the Reserve Bank Bill; and to bring about an immediate devaluation of the rupee;
3. To do all other things for the promotion of the above objects

OFFICE-BEARERS OF THE LEAGUE

PRESIDENT:

11807 LATHURADAS VISSONJI.

VICE-PRESIDENTS:

N. C. KELKAR.

ANSHYANDAS BIRLA.

ASTURBHAI LALBHAI.

L. MAHOMED SAIT,

SHRI RAM,

SARANDAS.

H. SAWYER,

TREASURERS:

WINSHAW,

POCHKHANAWALA.

SECRETARIES:

HUNLAL B. MEHTA.

S. R. DAVAR,

D. SHROFF,

K. MEHTA,

Changir Wadia Building,

Madame Road, Fort,

BOMBAY.

X61, 440R56

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Proceedings of a public meeting of the citizens of
Bombay held at the Sir Cowasji Jehangir Hall,
on Friday, the 13th October, 1933
under the Presidentship of
Seth Mathuradas Vissonji
Khimji.

Men holding divergent political opinion came together on a common platform under the auspices of the Currency League of India, on Friday, the 13th October 1933 at the Sir Cowasji Jehangir Hall, and made strong attacks on the 18d. ratio which was ruining the vast agricultural population and the industrial community of India.

The speakers included Mr. Jamnadas M. Mehta, Sir Cowasji Jehangir (Jr.), Principal S. R. Davar, Mr. Chunilal B. Mehta, Mr. Mavji Govindji and Mr. A. D. Shroff.

Sir Purshottamdas Thakurdas, sent his views on the ratio question in writing to the Chairman, and the letter was read to the meeting.

The letter was as under:-

"I am so sorry that my convalescence prevents me from taking part in the activities of the Currency League which you start to-day but I feel that I must send to you and all sympathising with the League, a word about the grave responsibility which rests on the Public in India to put forth at this juncture in an unequivocal manner their apprehensions and convictions regarding the management of currency in India during the last 13 years at least.

"There is no question now that the Government's determination to fix the ratio at 2 sh. gold in 1920 at sh.1/6 gold in 1927, were egregious blunders which have cost the Indian agriculturists, commerce, industry, labour and in fact every one living in India, unassessable amount of loss in money and credit. Without doubting anyone's bona fides it has to be admitted that the non-Indian personnel of the Babington-Smith Committee of 1915-20 and of the Royal Commission of 1926, were as little able to see the future clearly as anyone in any part of India. India was, inspite of all the reasoning and appeal made to Government of India by the public at its own instance, ordered by the India Office to be

exposed to a bold experiment which has no precedent in the world since the Great War. The 2 sh. gold ratio having failed ignominiously within a few months after it was conceived in London, a comparatively milder experiment was ordered from White Hall in 1924-25 and with the approval of the majority of the Royal Commission of 1926, the Sh. 1/6 ratio was forced on India in 1927 by a majority of two in the Legislative Assembly. This ratio had begun to creak long before it was put on the Statute in April 1927. Enormous amounts of currency had to be contracted and/or deflated from then upto 21-9-1931, when England herself went off Gold standard. The most rich and important countries in the Western world have gone off their pre-war parties to save their agriculturists and/or industries but India is yet kept on the appreciated ratio of Sh. 1/6 sterling.

"With the passing of the Reserve Bank Bill if no decision is taken regarding the ratio, I have no doubt that according to the White Paper this important question will be barred to the future Legislature until (1) it suits the India Office to authorise the Viceroy to give his assent to such discussion or (2) nature breaks the currency system of India by one of its many vagaries in local or world factors and conditions. In either case the danger to India is undoubted.

"It is possible there are serious differences amongst some in India as to what to adopt immediately, a free Rupee or a Rupee linked to any standard and ratio. I suggest that the public and your League should press for a definite review of the existing conditions by Government and the Legislature before the Legislative Assembly consider and pass the Reserve Bank Bill.

"On this the public in India, both Indian and European, appear to be agreed and I hope that your League will present on this a united front, first and foremost. I have no doubt that on this question there would be no difference at all.

"A Finance Member of the Government of India said once that everyone in India handles the Rupee from day to day without realising its vagaries. It is for the intelligent section of the public all over India to look upon the eve of the consi-

deration of the Reserve Bank Bill by the Legislative Assembly and its Select Committee as an opportunity of greatest service to the masses and classes of India, and in fact, I would add, even the future generations.

"I wish you all success in your and the League's efforts. The League is starting, if anything, much too late, but I hope it will make up for it by more concentrated activities from now onward."

Seth Mathuradas Vissonji, the president then opened the proceedings with the following speech:—

You all know the purpose for which we are gathered together here this evening, viz, to lodge our emphatic protest against the present Currency and Exchange policy of the Government of India.

At the outset, I should like to observe that, not being an expert in monetary problems, you will pardon me if I do not take you into the intricacies of problems connected with the monetary policy of a country, and about which, as you are aware, fierce controversies are being raged in all parts of the world at present. The trade depression which is being experienced in the world to-day has been ascribed by eminent economists and others competent to pronounce an opinion thereon to a number of causes. Some hold that the main cause lies in the fact that there has been tremendous over-production in various parts of the world, both of raw materials and finished articles, while others hold that the fundamental cause lies in the inherent defects in the monetary policies obtaining at present in various countries of the world.

Whatever may be the exact cause or causes of this depression the fact is that the world is in the midst of terrible depression of unparalleled character and intensity. In India our difficulties are intensified by the policy pursued by the Government of India in regard to currency and exchange since they placed on the Statute Book the fateful 18d. ratio. Warnings from all quarters of the commercial community in India were given in unmistakable terms that the 18d. ratio would prove disastrous to the agricultural and industrial interests of the country. In spite of these universal protests and warnings,

this ratio, as you are aware, was placed on the Statute book in 1927. Whatever might have been the justification, and whatever insignificant support might have been enlisted in the country for this 18d. ratio then, I am sure, time has now arrived when the evils wrought by this unnatural ratio have been too well-known to need any special recital here. It is now admitted on all hands that the present Rupee is very much inflated and over-valued, and it has resulted in serious diminution of our export-trade and has dealt serious blow to the indigenous industries of India. The country has now before it the new Reserve Bank Bill, through which it appears the present ratio is sought to be perpetuated.

Ladies and gentlemen, the Currency League of India, under whose auspices we are meeting to-day, has been started "to educate and organise public opinion with a view to oppose the continuation of this 18d. Sterling ratio, and to bring about immediate devaluation of the Rupee."

I am aware that there may be differences of opinion about the figure at which the Rupee is to be devalued. Some advocate 16d. or even lower than that, but one thing is certain we all need the devaluation of this bloated and inflated immediately. Experts may differ about the technical with regard to the devaluation, and I would not quarrel them. I would, however, like to observe one thing and is, as a businessman it has been my bitter experience that the present ratio has done great harm to my business, and, I am sure, that similar has been the experience not only of my fellow businessmen and industrialists but also of the vast agricultural population of the country. Our immediate objective, therefore, is to bring about the devaluation of the Rupee without any delay.

Ladies and gentlemen, in 1931 when Great Britain went off Gold, the British Government, over the heads of both the Government and the people of India, divorced the Rupee from Gold and linked it to Sterling. At that time a public meeting under the auspices of the Indian Merchants Chamber was held to register the emphatic protest on behalf of the

Indian commercial community against such a step. Our experience during the last two years since that fateful decision regarding linking of the Rupee to Sterling has been very sad indeed. The results of this have been evidenced in tremendous fall in prices both of commodities and agricultural products, and also large diminution in our export trade. The paramount need of the hour is, therefore, a general rise in prices of commodities and particularly of agricultural produce of the country. I do not think that there is any body who would seriously dispute the contention that immediate devaluation of the Rupee would result in rise in prices and thus afford the much-needed measure of relief to the agricultural and industrial interests of the country.

Now, Ladies and gentlemen, I would not detain you further on this point, as I must leave to other speakers to elaborate on the various aspects of the Currency and Exchange policy of Government.

The Currency League of India will carry on all over India propaganda in regard to this matter and will not rest till its objective, viz., devaluation of the Rupee, is achieved. In order that the hands of the League be strengthened, it looks forward for help and active support in this direction from every Indian, whether he be a businessman or otherwise. I would now call upon Mr. Jamnadas Mehta to speak:

Mr. Jamnadas Mehta then addressed the meeting and said:—

"India's currency policy should be rogue-proof and fool-proof. High exchange ratio paralyses and robs the Indian masses and the present linking of the rupee with the sterling is nothing but continuous bleeding of all Indian interests. Leave the rupee alone to find its level and its devaluation will surely help to raise the general level of prices in the country.

Referring to the disastrous currency experiments of the Government of India since 1893, which affected vitally both the masses and classes of India, he said "no burglary could involve more losses than the legalised burglary of unsound currency policy and inflated ratio."

Sir Cowasji Jehangir (Jr.), who followed Mr. Jamnadas Mehta said that he warned the Finance Member of the dissatisfaction in the country. The speaker did not want any further investigation by Government, but desired them to take the right action.

Explaining the relation of the Reserve Bank Bill and the exchange ratio Sir Cowasji Jehangir said that there were two clauses in the Reserve Bank Bill which laid down the principle that the rupee should be linked to sterling. Another clause in the bill stated that the ratio should be what it was to-day. But there must be some machinery or Act in which the exchange ratio was specified. When the Reserve Bank Bill was passed, the Currency and Coinage Act, which at present governed the policy would stand repealed and Government's exchange policy must be embodied in the Bill. The object of the Reserve Bank Bill was to lay down principles on which the Reserve Bank should be managed. It would contain instructions as to Government's exchange policy. They could leave these two clauses blank with instructions to Government to fill them one day before the Reserve Bank Bill began to operate. They could not insist on the exchange.

The agitation for a change in the ratio had been going on for years and the League had come into existence not a day too early. He preferred the linking of the rupee with the sterling as three-fourths of the world was linked to sterling. They wanted only Government to change the ratio. As regards the question of devaluation the position of India was a little different from other countries. If they changed the ratio with regard to the sterling other countries would not be able to devalue simply to jeopardise India's position. By changing the ratio, he maintained that India would get a temporary advantage which would be of a lasting character.

One fundamental point he wanted to urge was that the ratio should not be changed by legislation. Any change in the exchange ratio would be justified, and it was their duty to force the hands of Government to make the change and not to throw the responsibility upon the shoulders of the legislature,

Principal Sohrab R. Davar, who spoke next said in the course of his speech:—

Both the agriculturists and industrialists are at present clamouring for protection against the in-roads of Japan, and Lancashire and whatever technical difficulty that may be felt by the Government in connection with the increase of protective duties, they can virtually achieve it by simply lowering the external value of the rupee from its present inflated position to that of its correct value of one shilling to a rupee. A stroke of pen is all that is necessary here on their part by which they could thus raise the protection by 33 1/3 per cent without having to argue with Lancashire or Japan on the question of tariffs and at the same time their conscience would be clear because what they will be doing is the readjustment of the value of their current coin at its proper market value.

The Reserve Bank Bill, which the Government has introduced, is attempting to fix the external value of the rupee at the same excessive valuation of 1sh. 6d. The functions of a Reserve Bank are, as we have been repeatedly told, among others, to maintain the international value of the rupee and to control the credit situation in India. The Central Banking Committee has given the same definition. If so, why tie down the hands of the Central Board of the Reserve Bank enacting even temporarily to the effect that the 1sh. 6d. ratio should be maintained even after this bank begins to function?

If the Government had any doubt as to what the exact value of the rupee happens to be and if they are prepared to argue that 1sh. 6d. is a correct valuation, then why not leave that case to be judged by the Reserve Bank authorities and its experts instead of forcing on them a ratio which is universally looked upon as excessive and seriously detrimental to the interests of this country?

The answer of the Government given as in the preamble of the Reserve Bank to the effect that considering the present disorganisation of the monetary system of the world, it is not possible to determine what will be suitable as a permanent basis for the Indian monetary system, is inconsistent with their

attitude at fixing a ratio or value of the rupee at an arbitrary rate of 1sh. 6d. because if that is not possible to be determined by a Reserve Bank, surely it cannot possibly be done by the Government's Finance Department itself. On the contrary the Reserve Bank having on its directorate or Board of Governors men of business assisted by the officers who have banking experience, all these agencies will be naturally in touch with the banking finance and exchange position of this country as well as those of others and therefore they would be best qualified to fix even temporarily the external value of the rupee at an exchange which is the correct rate of valuation of our coin and in consideration of the best interest of this country and this country alone.

It cannot be argued for a minute that the interests of Great Britain in connection with its external and internal trade and manufacture are identical all along the line with that of India and if they are not, I cannot understand on what logic except for the good of Great Britain itself, India's currency has been linked with that of Great Britain.

Mr. Chunilal B. Mehta speaking next pointed out that Government was taking recourse to back door methods for avoiding to bring the ratio question before the Legislature not only at present, but even at any time in the future. With that object in view a dangerous clause was being introduced in the proposed Reserve Bank Bill which necessitated that any change in the Currency policy could only be decided upon by the British Parliament. And it was also with the self-same object that the acceptance of the Reserve Bank was made a condition precedent to granting of any political reforms to India.

Proceeding, Mr. Mehta said that while all the Governments in the West were changing their currency policies, overnight as it were, to suit the exigencies of changed economic circumstances in the world, the Government of India alone was sitting tight and unperturbed over the whole question; hence there was necessity for such propaganda by the Currency League of India. The League, said the speaker, would disperse immediately if the Government of India changed their currency policy as desired by public opinion in the country.

In the course of his remarks Mr. Mavji Govindji pointed out that India was the milch-cow of Britain which was always waiting to drain the last drop of milk from the cow and never bothered itself about the comfort and convenience of the cow.

Mr. A. D. Shroff who followed Mr. Mavji Govindji said:—

“India with one voice demanded the devaluation of the rupee if the vast agricultural population of India was to be saved from utter starvation.”

After referring to Sections 40 and 41 of the Reserve Bank Bill, which according to Mr. Shroff were the most iniquitous sections of the Bill, the speaker stressed the need of bringing pressure on the executive through the Legislatures. Unless such pressure was brought to bear on the executive no currency reform was ever possible, for the interest of Britain and India were diametrically opposed to each other and the former was always manipulating the currency in its own interest. England being a manufacturing country naturally wanted to get raw products at the cheapest price it could get; while India, which was a large producer of raw materials and food-stuffs, was out to get the highest price for her products. When there was such a clash of interests there would be no change in the currency policy of the Government unless sufficient pressure was put on the executive.

With a vote of thanks to the president, the meeting terminated.



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CURRENCY LEAGUE OF INDIA

BULLETIN NO. 2.

**PUBLIC OPPOSITION TO THE LINKING
OF THE RUPEE TO STERLING AND THE
PROPOSED CONTINUANCE OF THE
EIGHTEEN-PENCE STERLING RATIO
THROUGH THE RESERVE BANK BILL.**

**JEHANGIR WADIA BUILDING,
ESPLANADE ROAD, FORT,
BOMBAY.**

CURRENCY LEAGUE OF INDIA

OBJECTS.

- 1 To encourage and provide facilities for a systematic and impartial study of questions relating to currency, so that a currency policy best suited to the interests of the country may be evolved.
- 2 To educate and organise public opinion with a view to opposing the continuation of the 18d. sterling ratio as is sought to be done through the Reserve Bank Bill; and to bring about an immediate devaluation of the rupee
3. To do all other things for the promotion of the above objects.

OFFICE-BEARERS OF THE LEAGUE

PRESIDENT:

MR. MATHURADAS VISSONJI.

VICE-PRESIDENTS:

MR. N. C. KELKAR

GHANSHYAMDAS BIRLA

" KASTURBHAI LALBHAI

" JAMAL MAHOMED SAIB,

LALA SHRI RAM

" RAMASARANDAS

MR. H. H. SAWYER,

HON. TREASURERS:

MR. F. E. DINGELAW

" S. N. POCHKHANAWALA

HON. SECRETARIES:

MR. CHUNILAL B. MEHTA

PROF. S. R. DAVAR

MR. A. D. SHROFF

" J. K. MEHTA

**Office: Jehangir Wadia Building,
Esplanade Road, Fort, BOMBAY.**

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CURRENCY LEAGUE OF INDIA

—(o)—

Bulletin No. 2

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**Public opposition to the linking of the Rupee to Sterling
and the proposed continuance of the Eighteen-Pence
Sterling Ratio through the Reserve Bank Bill.**

Bulletin No. 1 of the League contained the report of the proceedings of the public meeting of the citizens of Bombay held on 13th October 1931 to protest against the present Currency and Exchange Policy of the Government of India.

In this, the second Bulletin of the League it is proposed to acquaint the public with the strength of opposition levelled against the action of the Government in linking the Rupee to Sterling in September, 1931. The following resolution moved by Mr. (Now Sir) R. K. Shanmukham Chetty was adopted by the Assembly on the 26th September, 1931.

WHEREAS it is apprehended that it would be seriously detrimental to the interests of India to link the rupee to sterling under present conditions; and

WHEREAS the action of the Government of India as currency authority in maintaining the exchange value of the rupee at 18d. has had disastrous effects on the agricultural and industrial interests of the country and has resulted in the depletion of the gold assets in the currency reserves; and

WHEREAS it is further apprehended that the linking of the rupee to sterling and the consequent obligation imposed upon the Governor-General-in-Council by the Gold and Sterling

Sales Regulation Ordinance (Ordinance VII of 1931) will result in further frittering away the gold assets, to the grave detriment of the financial and economic life of the country;

This Assembly is of opinion that the Governor-General-in-Council should immediately take such steps as are necessary to ensure that the total amount of the gold and sterling assets in the Paper Currency and Gold Standard Reserve are not allowed on any account to fall below the level at which they stand at present; and

This Assembly is further of opinion that under the present circumstances it would be in the best interests of the country for the Governor-General-in-Council, to take steps to restore the Ordinance VI of 1931 and to relieve himself from the obligation imposed upon him by section 5 of the Currency Act, 1927, or by Ordinance VII of 1931 and that in any case if Government are determined to continue Ordinance VII of 1931 such obligation ought not to be undertaken unless and until substantial long-term credits are forthwith granted in favour of the Government of India in London by His Majesty's Government on reasonable terms and conditions. With reference to the announcement made by the Hon. Finance Member about the introduction of a second Finance Bill this Assembly is of opinion that proposals for taxation should not be made without giving due notice to Hon. Members and that no proposals for taxation must be made in the present session."

* * * *

A largely attended public meeting of the citizens of Bombay was held under the auspices of the Indian Merchants' Chamber on 24th September, 1931 under the Presidentship of Sir Chunilal V. Mehta K.C.S.I., when the following resolution was passed:—

"This public meeting of the citizens of Bombay expresses its strong and emphatic protest against the announcement made by the Secretary of State for India linking the

Rupee to Sterling, which contravenes specific recommendation of the Hilton-Young Commission that the Rupee must be linked to gold to secure a true Gold Standard and which purports to continue the disastrous exchange policy hitherto followed by Government. This meeting is of opinion that the Rupee must not be linked to Sterling but must be allowed to find its own natural level and this meeting conveys its respectful thanks to Mahatma Gandhi for his protest against Sir Samuel Hoare's statement and the way in which such important decisions are taken without any regard to the opinion of the Legislature or the Commercial community:

"(b) This public meeting of the citizens of Bombay expresses its grave apprehension that the Ordinance VII of 1931, by restoring Currency Act of 1927 will result in dissipating our Gold Reserves and strongly protest against the contemplated gold sales which would result in the absorption of our Gold resources by a few favoured Banks. This meeting further expresses its opinion that there should be no further reduction in our Gold Reserves."

The above mentioned resolutions clearly show that there was a considerable opposition to the step taken by the Government of India at that time.

The Committee on the Indian Reserve Bank Legislation supported the linking of the Rupee to Sterling in paragraphs 19 and 20 of the Report and a provision has been made in sections 41 and 42 of the Reserve Bank of India Bill to continue the linking of the Rupee to Sterling. At the time of the discussion in the Legislative Assembly in September this year on the motion to refer the Bill to the Select Committee, criticisms were levelled against these clauses in the Bill. The following extracts from the speeches made by some members of the Assembly will be read with interest:

Mr. Vidyasagar Pandya expressed his opinion that the Rupee should not be linked to Sterling, but gold standard and gold currency should be aimed at and all efforts should be made to accumulate Reserves.

Dr. Ziauddin Ahmad referred to the fall in the visible balance of trade in favour of India and stated that while India's commitments in respect of invisible trade had upto now been paid by means of exports of Gold, that process should not be continued any longer. He, therefore, emphasised the necessity of increasing the export trade of India. Discussing the means of achieving this object he stated:—

"Now, everybody knows that our export has enormously fallen, because other countries have now come up in competition, and it is our duty and the duty of every person interested in the currency of the country to see that we should increase the exports of our country and that is the only method by means of which we can maintain our exchange without exporting gold from India. We have been pressing the Government that there should be an embargo on gold, but such attacks are useless. In the first place, Government will not do it; and even if the Government did it, it would result in the breakdown of our currency; and the only way in which we can maintain it is that we should have a favourable balance of trade and we must increase the quantity of exports in order to pay up our commitments.

"Now I make one suggestion, and I ask the Honourable the Finance Member or any other person who is opposed to my opinion to give me another method of increasing our exports. One method is that we should make our rupee cheaper in the world market and then our exports are bound to increase. This was tried by two countries—New Zealand and Sweden; and, in both cases, they tried it with great success. They had a devaluation of their currency; they diminished the value of their currency in the world markets and their

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exports went up; and I would like to press the same thing to-day, namely that with the object of increasing our exports it is essential that we must lower the value of our rupee in the world market; in other words, the value of the rupee, instead of being at 1sh. 6d. ought to be 1sh. 4d. and that is the only way in which we can maintain our exchange on an even keel; I believe it will be very unfortunate for the future Reserve Bank if we are to establish it with a ratio of 1sh. 6d., because it will be impossible for the Bank to maintain exchange on an even keel with this ratio that is, always pay the invisible balance of trade by means of the reserve of gold. If the people of India do not come forward and part with their private savings then it will have to be paid by the Reserve Bank from its reserve gold, and it will be a very great strain on the Bank to do it. Therefore, I think we must seriously consider, not in the light of political conditions, but purely from the point of view of increasing our exports, whether we should not consider the devaluation of the rupee and reduce it from 1sh. 6d. to 1sh. 4d."

Mr. Gaya Prasad Singh also spoke as under:—

"I would next refer, Sir, to the ratio question which also finds a place in the report of the London Committee. I have no desire to dig up the buried bones of a dead controversy which raged round this question a few years back, but I must say that the suggestion not to reopen this question is one which cannot be accepted in the best interests of this country. Now, Sir, in the Mansfield Commission report which was submitted as far back as 1866 this question was dealt with at some length:

"The Commission was appointed by the Government of India on the 3rd February, 1866, with Sir William Mansfield as Chairman, and it was the first of its kind set up in India. The Commission distinguished itself by making as early as 1866 two important recommendations, viz.: (1) the introduction of a "universal note" and (2) the introduction of a gold currency. The first recommendation was carried out in 1909

when for the first time, the five-rupee note was made "universal" for the whole of India, the second recommendation forms the subject of acute controversy and doubt at the present time."

"I am referring to a very useful book "The Monetary Problems of India," by Mr. L. C. Jain, which I would commend to Honourable Members for perusal.

"The Herschell Commission in 1892 recommended the ratio to be fixed at 1sh. 4d. What does the report of the London Committee state on this point? They say as follows:

"We consider that the only sound course for India is to remain on the sterling standard. On that basis the exchange obligations incorporated in the Bill must necessarily be in accord with the rupee sterling ratio existing at the time when the Bill is introduced."

Mr. H. P. Mody also observed on the occasion:—

"Nobody in this country, or at any rate only a very small section of the country, has ever had anything, but the utmost condemnation of the way in which the currency policy of the country has been managed and of the way in which the one and six ratio had been forced down our throats. I say, this ratio has brought untold harm to the country, and I do not care what other opinions are held. I think it is the considered opinion of anybody who understands anything about the trade, industry and finance of the country that this ratio has brought very great evils in its train.....It is a matter of common knowledge that the Government of India would have been forced off the ratio had it not been for the very fortuitous exports of gold. I am not sure that before the Reserve Bank comes into operation, the Government will not have occasion to revise their policy and to consider whether the ratio ought not to be altered. I say that the Government ought to keep this public feeling in this country perpetually in view. They must have the courage to retrace their steps, to see the folly of their ways,

and when it is realised that the ratio cannot be held together without serious detriment to the interests of this country, then they must immediately revise it."

Sir Cowasji Jehangir (Jr.) also referred to the ratio provisions of the Bill and stated:—

"The main object of this Bill is to establish a Reserve Bank. It so happens that it is through this Bill that we have to give instructions to the Reserve Bank, as to what the policy of exchange should be. Therefore, the only thing that we can do is to put into the Bill the ratio that may be in existence the day before the Bill comes into operation. Now, Sir, that does not mean by any means that all the signatories to the report agree with the policy of the Government with regard to exchange.

"My Honourable friend, Mr. Mody, reminded you, Sir, of the Resolution which you moved when England went off the Gold Standard. He now says and I was rather surprised to hear it, he now says that this is not the time to make any change. Let me tell this House that so far as I can judge public opinion in India, it is that 1sh. 6d. ratio is wrong and that Government can with benefit to the country change that ratio. I do not say it can be reduced to 1sh. 4d. or 1sh. 3d. or 1sh. 2d. It is not my purpose to express any opinion, but I must say that public opinion to-day is stronger than ever it was before, at least in my part of the country. (Hear, hear.) The public feeling is that the time has arrived when Government should give their most serious consideration to the question of ratio."

M. Thampan observed:

"With regard to the unsatisfactory character of the ratio, I make bold to challenge Sir George Schuster, the Finance Member, to deny this if he can: between March and September 1931, when they were getting gold from the public at the lower point, that is the level at which they

should be selling gold, the ratio ceased to function properly. The ratio automatically receded from the parity of 1sh. 6d. to a parity of 1sh. 5½d. I ask, if it did not. The exchange is a matter into which the public at large are not allowed to have a peep. In this connection, I wish to read a sentence from "The Monetary Problems of India" by L. C. Jain: at page 47, he says, speaking about the gold value:

"Since August, 1931, the British people themselves have not been allowed to know on what principles sterling is controlled. The maintenance of a sterling exchange standard therefore means that Indian currency is under the arbitrary control of unknown men in no way responsible to India, who do not even condescend to make any statement about their intentions with regard to its future purchasing power of gold value. This is not a situation with which India can be content."

"I cannot improve upon that. The situation is very serious and I venture to suggest to the Government with all the emphasis I can command that an expert committee, with a personnel that will inspire confidence to find out the true facts of the ratio in relation to the Resolutions passed at Ottawa on monetary matters and repeated at a Conference of Empire delegates at the World Economic Conference with a view to raising internal prices be appointed immediately. Sir, the Honourable the Finance Minister can do it if only he cares. When I read the minute submitted by Sir George Schuster to the Monetary Conference at Ottawa which I dare say you have read, I thought it was written by a nationalist of nationalists in this country. Sir George Schuster has eaten the salt of this country for some time and I must say he acquitted himself loyally. I was agreeably surprised that an Englishman should have written that minute. It was all in our favour and it is upto him to continue that mentality under which he wrote that

minute so long as he is in charge of the finances of this country".

"WHOLE ECONOMIC BEING SACRIFISED TO STERLING"

**"WHAT INDIA LOSES FOR BRITAIN'S BENEFIT BY
BEING TIED TO STERLING".**

(BY A. D. SHROFF)

It does not appear to be generally realised what it means for India to remain on the sterling standard. Important countries of the world may to-day be divided into three classes in respect of their monetary arrangements: (1) Gold standard like France, Holland, Switzerland, Italy, etc.; (2) Sterling standard; the British Empire, Norway, Sweden, etc.; (3) No definite standard like the U.S.A.

It is well-known that those countries which are still adhering to the gold standard are the most disadvantageously placed in regard to their competitive capacity in foreign markets 'vis-a-vis' the countries which have given up gold. Countries on the sterling standard whilst obtaining a modicum of advantage through a limited depreciation of their currency have preferred the dubious advantage of comparative stability of exchange to an advancing price level.

BRITISH "MANAGEMENT"

Now it has to be realised that the sterling standard of to-day pre-supposes "management" by the British Treasury and Bank of England with the £350 million of the Exchange Equalisation Fund at their disposal. Under the oft-professed policy of checking development of what are called abnormal tendencies the British 'management' has been endeavouring to keep the pound sterling at a level which, in

their opinion, would best promote the economic interests of Great Britain. The desideratum determined upon is evidently dictated by British circumstances and requirements. The pound has to be maintained on a basis where it secures such adjustment with British costs of production as to enable the British manufacturer to compete effectively with the foreigner not only at home but in outlying markets.

It is also indisputable that the conditions and requirements of the different constituents in the Sterling Area are not identical. As a matter of fact, they may in some respects be definitely conflicting. Great Britain does not grow food to last her more than two days in the week. She also does not produce raw materials like cotton to keep the Lancashire mills going. Her basic economy lies in exporting manufactured goods to buy foodstuffs and raw materials. It is, therefore, distinctly to her interest to get foodstuffs and raw materials as cheap as possible so as to obtain lower costs of production.

The conditions, however, in India are entirely different with more than 70 per cent. of our people living on agriculture, we are large exporters of foodstuffs and raw materials. It is also indisputable that during the present depression prices of these products have comparatively suffered a more catastrophic fall than in the case of manufactured articles.

OUR GREATEST NEED

Our greatest and most urgent need is to raise prices of primary products like wheat, cotton, rice, oil-seeds, etc. Unless these prices are raised sufficiently, the purchasing power of this country which has in recent years been considerably attenuated, cannot be augmented to relieve the widespread economic distress in the country.

I admit that since September, 1931, as a result partly of Britain going off gold, these prices have to a certain extent

improved. But this advantage has been very sharply limited to "thus far and no further" by our rupee being linked to sterling. The price-level which is being sought by Great Britain cannot suit our requirements, as the different items constituting an index of prices in the two countries carry their own particular "weightage" in Great Britain and India. Being also linked to sterling, we have only to submit to the results achieved by the British "management" whose orthodox predilections and imperviousness to new ideas have even in Great Britain evoked responsible criticism from experts of the eminence of J. M. Keynes.

MUST HANG ON STERLING

That India has neither any voice in determining the policy of the British Treasury nor of influencing it, hardly needs mention. The position, therefore, of India remaining on the sterling standard resolves itself into this that the fate of the rupee is made entirely to hang on whatever may ultimately happen to the pound sterling.

Indian conditions are more akin to those prevalent in the U. S. A. The American Administration have correctly gauged the needs of the situation and their objective and policy are not only intelligible but also well-known to the public. President Roosevelt on the advice of the "Brain Trust" has definitely directed his Administration to work gradually towards the restoration of prices obtaining in 1926. It is indeed a tremendous task, but with the inexhaustible resources of that energetic nation mobilised for the achievement of a definite objective under the stimulating leadership of Roosevelt, the chances of success are undoubtedly great. It promises to succeed because the programme outlined is a frontal attack on the plague-spot, I mean, the loss of purchasing power through the unprecedented drop in prices. It is an attempt to remove, and not merely allay the pangs of poverty left amidst the surrounding riches of uncontrolled

production. The pressure of indebtedness on the farming community has been made unbearable by the continuous decline in prices an experience quite common to our agriculturists who have been for some time now known to be disposing of their meagre store of capital in the form of their wives' gold earrings or bracelets to buy the daily necessities of life.

TIED TO STERLING

What is the remedy sought by the American Administration? Devaluation of their dollar, if necessary, to the extent of fifty per cent of its previous level. In India, instead of our rupee being allowed to find its level, freed from the shackles of the cramping link with sterling our whole economic well-being is being sacrificed by the rupee being tied to the unjustifiably high level of 18s.

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CURRENCY LEAGUE OF INDIA

BULLETIN NO. 3.

The Reserve Bank Bill, 1933.

Mr. A. D. Shreff, B.A., B.Sc. (Econ.), (Lond.), Bombay.

**JEHANGIR WADIA BUILDING,
ESPLANADE ROAD, FORT,
BOMBAY.**

CURRENCY LEAGUE OF INDIA

OBJECTS.

1. To encourage and provide facilities for a systematic and impartial study of questions relating to currency, so that a currency policy best suited to the interests of the country may be evolved.
2. To educate and organise public opinion with a view to opposing the continuation of the 18d. sterling ratio as is sought to be done through the Reserve Bank Bill; and to bring about an immediate devaluation of the rupee.
3. To do all other things for the promotion of the above objects.

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MR. A. D. SHROFF,

MR. J. K. MEHTA.

THE RESERVE BANK BILL 1933.

—(c)—

(A. D. SHROFF, B.A. B.Sc. (Econ.), (Lond.), Bombay).

In paragraph 119 of the White Paper, it is laid down that the Reserve Bank Act can be amended only with the previous consent of the Governor-General. Sir Samuel Hoare, the Secretary of State for India, told the Joint Select Committee, on the 5th October last, that the Reserve Bank Act would be alterable in future only with the approval of Parliament. It is therefore imperative that the Reserve Bank Bill, which is now before the Central Legislature, should not be allowed to go on the Statute Book without certain amendments. However unjust and indefensible the attitude of Sir Samuel Hoare may be, it lays upon us the greater responsibility of making the utmost possible effort now to get the Bill altered and modified to safeguard the best economic interests of this country. Our refusal to actively participate in the discussion of the Bill will only be construed as silently acquiescing in the proposals of Government, some of which, if accepted, will prove most detrimental to our interests. The purpose of this article is not to make a detailed analysis of all the fifty-four provisions of the Bill, but to indicate only a few salient points on which public opinion should be mobilised with a view to impress upon the Central Legislature the necessity of amending the Bill in a manner to make it acceptable to the country. It must, therefore, be clearly understood that, if other points are not referred to here, that should not be regarded either as not worth our notice or as acceptable *in toto*.

FIRSTLY, the scheme of a Shareholders' Bank should only be accepted if the following provisions are incorporated in the Bill.—

- (a) that 75 per cent. of the paid-up capital at any time should be held by natural-born Indians.

- (b) that the share capital of Rs. 5 crores should be divided into fully-paid shares of Rs. 100 each. This will afford opportunity to a large number of persons of small means to obtain a stake in the Reserve Bank which should be regarded as a national institution.
- (c) that every shareholder should be given only one vote irrespective of his holding;
- (d) that the distribution of profits by way of dividend on shares should be limited as provided in section 44 of the Bill;
- (e) that Government should have the right to acquire at any time the entire capital of the Bank at a fair valuation.

SECONDLY, the Governor and Deputy-Governors should be appointed by the Central Board with the approval of the Governor-General in Council now, and with the approval of the Federal Government when the new constitutional reforms are introduced.

It should be distinctly provided in the Bill that no official or ex-official of Government would be considered eligible for appointment as Governor and Deputy Governor. One of the most competent of our Indian Civil Service men cost India over Rs. 50 crores owing to his muddling of our currency and exchange in 1920.

At least one of the Governors and Deputy-Governors should at any time be natural-born Indians.

THIRDLY, the majority of Directors of the Central Board must at any time be natural-born Indians. The four Directors to be nominated now by the Governor-General in Council should

under the reformed constitution be nominated by the Governor-General on the advice of the Federal Government.

FOURTHLY, the Bank should not be allowed to invest its money on securities of countries on the sterling standard, except that of Great Britain. The risk of such investments was recently shown by the threat of one of the States of the Australian Commonwealth to repudiate its public debt.

This ban should also be imposed regarding investment of any part of the reserve against the note-issue.

FIFTHLY, there must be a fixed statutory minimum percentage of gold holding in the reserve against the note-issue. The Bill only provides for a minimum gold holding of Rs. 35 crores, which considering the existing note-issue of Rs. 179 crores is not even twenty per cent. The percentage of gold holding in some of the western countries at present is very noteworthy:—

United States of America	84 per cent.
France	over 100 per cent.
Great Britain	42 per cent.
South Africa	40 per cent.

We have at present in the Currency Reserve and Gold Standard Reserve, gold of the value of Rs. 44½ crores, taking the price of gold at Rs. 21-3-10 per tola. We must, therefore, insist that the minimum of holding should be increased to 44 crores or twenty per cent. of the entire note-issue, whichever is greater. There is absolutely no justification for Government's withholding Rs. 9½ crores of the available gold which, if tolerated, may well be frittered away in bolstering up an artificially inflated value of the rupee.

SIXTHLY, the Reserve Bank Bill is made the instrument for obtaining legislative sanction for the 18d. sterling ratio for the first time. Let it be remembered that the Currency Act (1927).

which gave the statutory value of 18d. gold to the rupee, it still on the Statute Book. It was only by Government fiat that, in September 1931, Government made the Rupee worth 18d. sterling. The Legislative Assembly then passed a resolution by a large majority condemning the Government action in linking the Rupee to Sterling. Knowing full well the mind of the Assembly, Government has not, so far, dared to ask the Assembly to give legislative approval to the 18d. sterling ratio. Sections 40 and 41, which prescribe the buying and selling rates for sterling in terms of rupees are clearly designed to hoodwink the Assembly into granting legislative sanction to what it has so far consistently refused to look at.

The assurance given in the preamble of the Bill, that when international monetary conditions are stabilised, the question of the Rupee-Sterling ratio may be reviewed is only a snare and a delusion to catch the unwary legislator into accepting Sections 40 and 41. With the statement made by Sir Samuel Hoare on the 5th October last, it will be nothing short of impossibility to expect a change in the ratio, once the present Bill is allowed to pass. Now is the most opportune, if not the only, moment to offer united and stout opposition to this surreptitious attempt to perpetuate the most iniquitous valuation of the Rupee which has brought the bulk of our teeming population to the verge of economic ruin.

It is doubtless true that the change in ratio can be brought about with the least disturbance to the country by executive action only. But is it possible, with our long, and bitter experience of the non-responsible Government of India, to expect executive action in this matter without the public and the legislature bringing the utmost possible pressure upon Government? This is the time to establish our right to determine the value of our own currency, and the establishment of this right is of supremely greater importance to us as a self-respecting nation than the establishment of a Reserve Bank, whose creation is

sought to be exploited as a further occasion for the denial of this most elementary right to us as an equal partner in the British Empire. The duty of the Central Legislature is very clear, as the daily deteriorating plight of the voiceless millions demands that, unless Government are prepared to abandon their hitherto inflexible attitude on this question, the enactment of the Reserve Bank Bill into law is of no immediate consequence and may well be consigned back to the pigeon-hole of the Finance Department. "Awake, arise, or be for ever fallen."

SEVENTHLY, the agreement between the Reserve Bank and the Imperial Bank should be of such a character as not to prejudice the growth and development of Indian joint-stock banks.

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PREFACE

Public attention has recently been drawn to the statement made by Sir Samuel Hoare, Bt., during the course of his evidence before the Joint Parliamentary Committee on Indian Constitutional Reforms on October 5th, that the Indian Reserve Bank Act, after being passed would, under the new constitution, *become a part of the constitution*, and Provisions to "ensure the proposals of the Indian Reserve Bank Act only being alterable with the approval of the Imperial Parliament," would be made. In view of the importance of this point extracts from the evidence are given here. As the same arose in an examination of paragraphs 110 and 119 of the White Paper proposals, these paragraphs are also reproduced for ready reference.

The editorial commentary of the "Hindu," Madras, in its issue of the 16th October, dealing with the Reserve Bank Bill and the evidence of Sir Samuel Hoare above referred to, is also reprinted here, as it contains a lucid exposition of all the aspects of the proposed Reserve Bank legislation.

Hon. Secretaries,
Currency League of India.

Extracts from the evidence of Sir Samuel Hoare, Bt., G.B.E.,
Secretary of State for India, before the Joint Committee:—

11

Lord Rankeillour.—There is one point, Secretary of State, which I do not think quite came out in the beginning of the discussion. I take it, first of all, that the effect of Nos. 110 and 119 taken together is that unless debarred by No. 110 the legislature with the consent of the Governor-General can amend any Act of this Parliament?

Sir Samuel Hoare.—Yes.

Marquess of Zetland.—I have only one question I want to ask the Secretary of State, and that is with regard to parts of Clause 119. Under that clause the consent of the Governor-General will be required to the introduction of a Bill affecting the coinage and currency of the Federation or the powers and duties of the Federal Reserve Bank in relation to the management of currency and exchange. I do not quite know what is involved by the word "management". Will it be within the competence of the Legislature to introduce and discuss, for example, a Rupee Ratio Bill, and if it is within their competence would the introduction of such a Bill require the prior consent of the Governor-General?—It would certainly require the previous assent of the Governor-General.

But it would be within the competence of the Legislature?—Yes.

I mean it would not infringe upon the powers of the Reserve Bank?—No; It would not be within the competence of the Legislature under No. 119. It is not one of the subjects excluded altogether. The subjects excluded altogether from the competency of the Legislature are under No. 110.

Lord Rankeillour.—But some of these might be put into the Act as part of the Constitution, and they would become so?—That is so.

Marquess of Reading.—You mean, if they were put into No. 110?

* *Lord Rankeillour.*—I mean the reserved control of the Governor.

General presumably will be put into the Act and that would bring it into the operation of 110.

Lord Irwin.—As part of the Constitution Act?

Lord Ranksillour.—Yes.

Sir John Wardlaw Milne.—In connection with No. 119 I wanted to ask the Secretary of State whether he did not think there was a little danger in the use of the word "management" of currency; whether he does not think that could be altered to cover the policy without the details of the management of the currency?—Yes; I will look into that point. As I say, this is not intended to be a final draft in any way.

Sir Abdur Rahim.—Secretary of State with reference to paragraph 119, I want to be clear with regard to the previous consent which is necessary for any legislation regarding coinage and currency, or in relation to the management of currency and exchange. The Governor-General has a special responsibility regarding the financial stability and credit of India, but supposing legislation is proposed regarding coinage and currency, fixing, for instance, the ratio, which is not calculated to affect the financial stability and credit of India, would the Government even in such a case have to obtain the consent of the Governor-General, and if so, why?—Yes; for the reason I have just stated, that the discussion of certain of these questions may lead to a considerable amount of harm.

But you know as regards that, there is a great deal of opinion in India regarding the ratio, for instance. Surely you would not bar out all discussions? Supposing the Governor-General thought that the legislation that he proposed is not likely to affect the financial stability or credit of India in any way, why should not there be a discussion?—Supposing he thought there were no dangerous reactions, he would allow a discussion.

But I mean the Bill itself may be such that any such apprehension is precluded: Would you preclude discussion, apart from the question of financial stability and credit of India, of any legislation?

regarding coinage and currency?—We have always felt that it was necessary to be somewhat precise in a matter of this kind. It has such very dangerous reactions. On that account every time we have discussed these difficult financial questions, we have always said that this was one of the financial safeguards that we did regard as essential. That opinion was held not only by the Members of the Government and by the British Representatives in these various discussions, but it was held by a good many Indian representative public men as well. It is definitely one of the financial safeguards that we do regard as essential.

But is not the special responsibility wide enough?—No; we came to the conclusion that it was not. After all, in these questions of high finance, we have to be very cautious and it was the considered view of not only the politicians but of businessmen as well that a safeguard of this kind was very essential.

Mr. M. R. Jayakar.—With regard to the other point, namely, the consent of the Governor-General with regard to coinage and currency, you are aware, Sir Samuel Hoare, that at the first Round Table Conference Indian opinion was contrary to the reservation of this right to the Governor-General. May I read in that connection a short statement in the Report of the Round Table Conference, page 14 of the copies supplied to us, where it was stated (I am speaking of the very first opportunity we had of expressing an opinion) "Upon the question of finance, Indian opinion was that even the safeguards set out in the Report went too far, especially those giving special powers to the Governor-General." You are aware of that, that Indian sentiment, as it has expressed itself there, is strongly against the retention of this power in the hands of the Governor-General by way of giving prior sanction to the Bill?—I would certainly agree that there is a strong body of opinion in India against this safeguard. We took it very carefully into account in our subsequent discussions, but we did definitely come to the conclusion that in the very difficult financial conditions that have arisen since the first discussion, and with which it looks as if we shall be faced for some years to come, it was an essential condition.

Then do you think there is any necessity for giving this power to the Governor-General, namely, sanction to any legislation relating to

coinage and currency even after the Reserve Bank is established, having regard to the fact that you are making the Reserve Bank free from political influence, and, having further regard to the fact that legislation dealing with the Reserve Bank would require the Governor-General's previous sanction? I should have thought you would have made the Reserve Bank strongly entrenched from discussion and alteration by the public. Do you think there is any necessity for continuing this power in the hands of the Governor-General after the establishment and working of such a bank?—Yes; we feel that it is really essential, and a complementary safeguard. You might have the operations of the Reserve Bank gravely compromised by discussions of this kind. Take, for instance, the case that is in everyone's mind, the case of the rupee-ratio. You might very well have the foundations of the Reserve Bank being shaken by political agitation on the subject, and particularly in the difficult early years when it was gradually getting itself started.

There is no time limit to the powers given in paragraph 119?—There is no time limit, nor, indeed, I think can there be a time limit given, but no doubt if things work well and no need for the Governor-General to exercise a veto of this kind, discussions in course of time will take place.

Lord Rankeillour.—Is it not proposed to put anything into the Constitution Act with regard to the Federal Reserve Bank? Is it proposed to legislate separately for that?—What is happening with the Reserve Bank is this. There was this very comprehensive and expert inquiry into the question in the summer. Previous legislation of the kind has taken place in the Indian Assembly, and the arrangement has been that a Bill would in due course be introduced in the Indian Assembly and that Bill would pass through the Indian Assembly if the Indian Assembly is ready to pass it. Some reference will certainly be needed to the Bill in this Constitution Act.

That may bring it under 110?—Let me just be clear about that. No, it will not bring it under 110; it will bring it under 119; but except

as otherwise Parliament may determine, only the Imperial Parliament would be able to alter the proposals.

If the reference in the Constitution Act confirms the provisions of the existing Government of India Act, that would make it part of the constitution, would it not?—It would become a part of the constitution—to this extent, that *a reference of some kind would be made to it in the constitution that would ensure the proposals of the Indian Reserve Bank Act only being alterable with the approval of the Imperial Parliament.* (Italics ours)

Sir Hari Singh Gaur.—There is just one question I wanted to ask the Secretary of State. Did I understand the Secretary of State to imply in answer to a question by Lord Rankeillour that after the Reserve Bank Bill is passed by the Indian Legislature any amendment of that Bill would be with the concurrence of the Imperial Parliament or that no amendment could be made by the Indian Legislature except with the consent of Parliament?—The position is rather a complicated one. It is this, in a sentence or two: Here we are asking the Indian Legislature by its own Legislation to carry out arrangements that we say are essential for bringing the constitution into being. Obviously if that arrangement is to take effect, it cannot be possible for the Indian Legislature at some future time to alter the conditions without which the constitution would not have come into operation without the previous consent.*

*Reprinted from the unrevised official Reports No. 31.

*Paragraphs 110 and 119 of the WHITE PAPER
on Indian Constitutional Reforms*

110. It will be outside the competence of the Federal and of the Provincial Legislatures to make any law affecting the Sovereign or the Royal Family, the sovereignty or dominion of the Crown over any part of British India, the law of British nationality, the Army Act, the Air Force Act, the Naval Discipline Act and the Constitution Act, (except, in the case of the last mentioned Act, in so far as that Act itself provides otherwise).

119. The consent of the Governor-General, given at his discretion, will be required to the introduction in the Federal Legislature of legislation which repeals or amends or is repugnant to any Act of Parliament extending to British India, or any Governor-General's or Governor's Act or Ordinance, or which affects any Department reserved for the control of the Governor-General, or the coinage and currency of the Federation, or the powers and duties of the Federal Reserve Bank in relation to the management of currency and exchange, or religion or religious rites and usages, or the procedure regulating criminal proceedings against European British subjects.

— (c) : —
THE RESERVE BANK BILL

*(An editorial article in the HINDU, Madras,
d. 16th October 1933.)*

The Joint Select Committee on the Reserve Bank Bill will meet at Delhi, we presume on Monday next, to examine the provisions of the Bill in the light of the criticisms that have been made both inside and outside the Legislature. Its duty will be to shape its provisions in such a manner that the Bank, when established, will command public

confidence and to see that the Act itself is a sound and safe measure of currency legislation enacted in the national interests at this critical juncture. We feel bound to say, however, at the outset, that the task of the Joint Committee has not only been not lightened, but has, as a matter of fact, been rendered extremely difficult and delicate indeed by the most unsatisfactory, not to say surprisingly vague answers which the Secretary of State for India gave during his examination before the Joint Select Committee on the 5th October last. The questions that were put to him then, at the instance of British vested interests, were questions intended not "to establish on sure foundations free from any political influence" this Central Reserve Bank, but to ensure that the Reserve Bank legislation undertaken in India was in accordance with the desires and requirements of London City. What is worse, the questions were such as were calculated to provide that legislation thus enacted was placed beyond the purview of the Federal Legislature of the future and rendered unalterable without the assent of Parliament, that is, of London City interests. The relevant portion of the proceedings received by Air Mail yesterday are published elsewhere. Though the Secretary of State has been far from clear, not to say consistent, in the answers he gave on this part of the subject, it is very evident that his view of the Reserve Bank legislation in relation to the Constitution Act has been shaken, as in other matters, by Lord Rankeillour's plausible suggestions as to the need for the preservation of the authority of Parliament, as also by the continued pressure which London City interests are putting on him. It is notorious that they by no means like the establishment of a Reserve Bank in India which would transfer the control of currency and finance from London to India.

WANTED A FIRM STAND

We hope that the members of the Joint Select Committee on the Reserve Bank Bill in India will take note of this fact when they peruse the proceedings with all the care and attention they can give it. We earnestly trust that they will take a firm stand against any attempt at stampeding the Indian legislature into enacting such a bill as will please London City and that thereby they will refuse to consent, either by

their silence or by shirking to face the difficulty they may have in expressing their mind in statutory form, to the proposition that the Act which they now pass shall not be alterable in the future without the affirmative approval of the Imperial Parliament. It will be necessary for them at the very outset to deal with this as well as other fundamental issues that arise out of other restrictive provisions which the Government have included in the Bill. They are the means by which "the Governor-General at his discretion" will be enabled to act effectively in controlling the constitution of the Executive and its administration of the Bank, so as to make them conform to the directions of His Majesty's Government—which means the British Treasury and the City interests in London. We do hope therefore that the Joint Select Committee will obtain satisfactory assurances that there will be no attempt to impose such impossible conditions on the country or to go back upon accepted principles of Reserve Bank legislation or the fundamental canons of legislation in constitution-making, before they are asked to assent to legislation of the vital kind that they are asked to embark upon.

THE ROUND TABLE DISCUSSIONS

The present Bill is based on the recommendations of the London Committee who were invited to frame a Bill, as their report states, in accordance with the recommendations of the Round Table Conference. The primary recommendation was that steps should be taken to establish this Bank on sure foundations and free from any political influence. A secondary recommendation, which was that of a majority and to which Indian opinion, as a body, was opposed, was that "provision should be made requiring the Governor-General's previous sanction to the introduction of a Bill to amend the Paper Currency and Coinage Acts on the lines of Section 67 of the Government of India Act." The Round Table Conference Reports have declared that "upon the question of Finance, Indian opinion was that even the safeguards set out in the report went too far, especially those giving special powers to the Governor-General." But while the Second Round Table Conference recommended that, subject to these limitations, the control of India's finance should be made over to a Finance Minister responsible to the

Indian Legislature, the Third Round Table Conference thrust a further clause, to which again Indian opinion as a body objected, that the establishment of a Reserve Bank and its successful operation should be a condition precedent to the transfer of finance to a responsible Minister in India. In doing so, they went back upon the recommendation of the Second Round Table Conference which had recommended that, until a Reserve Bank was established at the proper time, some arrangement should be made by which the Governor-General could exercise such control over currency and finances as might be needed during the temporary period. It was announced during the Joint Select Committee deliberations that the attempt to find a temporary solution failed and that they should proceed with the proposals for establishing the Bank as soon as possible.

THE PREVIOUS ASSENT CLAUSE

It was in these circumstances that the Reserve Bank Committee was asked to discuss the proposals before them. The White Paper proposals comprehended in clause 119 all the limitations which His Majesty's Government thought necessary to incorporate in the forthcoming Constitution Act, namely, that "the consent of the Governor-General, given at his discretion, will be required to the introduction in the Federal Legislature of legislation... which affects the coinage and currency of the Federation or the powers and duties of the Federal Reserve Bank in relation to the management of currency and exchange...." It is this prior consent of the Governor-General at his discretion which, as we have so often had occasion to point out, has been all along and uniformly objected to by Indian opinion as an insuperable obstacle in the way of India's financial freedom. But the British Government have throughout affected to act in the name of the maintenance of the credit and stability of Indian finance in asking for this power for London over Indian financial operations.

A FURTHER IMPEDIMENT

As if this control was not effective enough for British interests, we are now confronted with the spectacle of the Secretary of State describing the position as a "peculiar" and "complicated" one and

saying that he was not sure whether clause 112 of the White Paper proposals) the clause which provides "that it should be outside the competence of the Federal and Provincial Legislatures to make laws regarding certain extra-Federal and other matters," should not apply rather than clause 119 referred to earlier. The Secretary of State has most surprisingly agreed to consider the proposition that the present Indian Legislature, having now been asked to enact the Reserve Bank Act, the forthcoming Constitution Act would, under clause 110, provide that it should be outside the competence of the coming Federal Legislature to make any law that would affect or alter this law or make which its predecessor, obviously a much less representative and authoritative body than the future Legislature, had full powers. It is for the members of the Joint Committee now to say whether they will consent to accept any such limitation as is thus sought to be imposed on the Legislature of the country. The Joint Select Committee, we think, should forthwith make it clear that they will be no parties to a Bill brought before the present Legislature if it is deliberately intended in the forthcoming Constitution to provide that the Indian Legislature in the future shall be powerless to alter it without the affirmative approval of the Imperial Parliament even though the amendment had the previous sanction of the Governor-General at his discretion.

A REMARKABLE DENOUEMENT

To seek to impose every conceivable kind of obstacle to the devolution of real responsibility on the people of India seems to us a most remarkable denouement to the whole series of attempts that are being made to grant responsibility in the Centre. For, to use the words of the Secretary of State himself, "a Federal Government without a responsible Finance Minister would be almost a contradiction in terms." Not less surprising is the remarkable attitude of uncertainty, vacillation and hesitation which the Secretary of State has exhibited in the matter. Although, no doubt, it is difficult in the course of a most trying cross-examination to realise all the bearings of an answer made across the table, it is not a little curious that it should have been taken for granted, in the course of the discussions in the Joint Committee, that it is a constitutionally possible or correct thing, first to snub a Statute in a

Dominion Legislature and then to take it again for affirmative approval to Parliament either through an enactment in identical terms or, apparently in conformity with Lord Rankellour's eighteenth century notions, through the method of addresses to His Majesty in both Houses. Apart from there being no known precedent for any such course, it is difficult to see why those who are responsible for such ingenious suggestions should not frankly and bluntly say that they are against the whole thing and that they intend Parliament to exercise greater control and legislate more directly on Indian matters than it ever did in the past. They may well admit that they do not honestly contemplate the transference either of any control over finance to Indian hands so long as the Britisher has any financial interests in India or any powers to Indian Ministers for the control of the services recruited in Britain so long as there is any Britisher serving the Indian Government.

FUTILE PROVISIONS

The futility as well as the injustice of any attempt to tie the hands of the Indian Legislature by prescribing a provision for the previous approval of Parliament to any and every modification in the Reserve Bank Act that may be needed in the future, seems to have wholly escaped the authors of this ingenious suggestion. The Reserve Bank Bill Committee has expressly recognised the need of early modifications, especially in regard to the ratio and they have insisted that the position in this matter should be made clear in the preamble of the Bill itself. "In the prevalent state of monetary disorganisation throughout the world," they said, "it is impossible to incorporate in the Bill provisions which would necessarily be suitable when monetary systems generally should be recast and stabilised," and after referring to the opinion of a considerable majority of Indian delegates who felt it their duty "to record their view that a suitable exchange ratio is one of the essential factors for the successful working of the Reserve Bank," the Report observed: "We are all agreed that it should in any case be made clear in the preamble that the whole question . . . will have to be reviewed when the international monetary position has clarified itself and become sufficiently stable to make it possible to frame more permanent provisions." In accordance with this, the preamble to the Bill among

other things recites: "Whereas it is expedient to make temporary provisions on the basis of the existing monetary system and to leave the question of monetary standard best suited to India, to be considered when the international monetary position has sufficiently stabilised and when the permanent measures, etc."

"SECURE PUBLIC-CONFIDENCE"

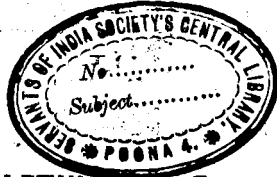
It is therefore perfectly plain that these provisions are essentially temporary provisions and it would be an impossible and intolerable condition imposed upon the Indian Legislature that it should be hampered in the exercise of its admitted power to frame permanent measures by the intervention of the British Parliament or of London City financiers. There are again provisions, for instance, in regard to the obligations of the Bank in the Issue Department, which may, on account of extraordinary financial crises, require urgent modifications such as necessitate the amendment of the Bank Charter Act in England; sometimes the amendment may have to be effected even by executive orders like Orders in Council. It would be a most ridiculous financial condition that when such a contingency arises, the Indian Government and the Indian Legislature should be disabled from going promptly to the Central Reserve Bank's rescue for the maintenance of the integrity of its note issue and stability of India's credit and finance, without obtaining the approval of the two Houses of British Parliament, thousands of miles away. We do trust that a fuller examination of this proposal by the Secretary of State will show him that any attempt to bind either the Federal Legislature or the Federal Executive in this manner is bound to defeat the very purpose for which it is desired. For, as Dr. Ambedkar pointed out, the liberty that will necessarily exist, of public discussion and agitation in regard to such financial matters, will be exercised with far greater intensity and have far more disastrous effects than what are but distantly feared now. After all, the Central Reserve Bank can only function if it commands the confidence of the country in which it functions and it would be surprising to expect that such confidence could be strengthened by these novel methods of Parliamentary approval to financial operations or actions which require prompt action and independent and expert guidance. Let His Majesty's Government, then, allow the Reserve Bank to "become," to

quote Sir George Schuster's words, "a trusted part of Indian public life," "a truly independent institution that will command the confidence of Indian opinion," and not be condemned to be "some sort of alien authority in the country which will diminish the legitimate powers of the Indian legislature."

ANNOUNCEMENT OF THE WEEK

1. A public meeting under the auspices of the Currency League of India was held in Calcutta on the 31st Oct. 1933, under the presidency of Mr. Nalini Ranjan Sarkar, president of the Federation of Indian Chambers of Commerce.
2. A public meeting under the auspices of the Currency League will be held on Sunday 5th Nov. 1933 in the Seeds Traders Association Hall, Mandvi, Bombay under the presidency of Mr. Ratilal M. Gandhi.
3. The next Bulletin will contain a symposium of the views of eminent leaders on the Ratio question.

CURRENCY LEAGUE OF INDIA



BULLETIN NO. 5.

CURRENCY AND EXCHANGE POLICY OF THE GOVERNMENT OF INDIA.

WHAT EMINENT PEOPLE THINK OF IT—

BEING A SYMPOSIUM OF VIEWS OF
EMINENT MEN IN THE COMMERCIAL
AND PUBLIC LIFE OF THE COUNTRY.

JEHANCIR WADIA BUILDING,
ESPLANADE ROAD, FORT,
BOMBAY.

CURRENCY LEAGUE OF INDIA

OBJECTS

1. To encourage and provide facilities for a systematic and impartial study of questions relating to currency, so that a currency policy best suited to the interests of the country may be evolved.
2. To educate and organise public opinion with a view to opposing the continuation of the 18d. sterling ratio as is sought to be done through the Reserve Bank Bill; and to bring about an immediate devaluation of the rupee.
3. To do all other things for the promotion of the above objects.

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SHETH MATHURADAS VISSANJI KHIMJI

VICE-PRESIDENTS:—

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MR. C. D. BIRLA,
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MR. J. K. MEHTA,

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Currency League of India.

BULLETIN No. 5.

Views of eminent men on the Currency and Exchange policy of the Government of India.

Government have made the exchange position of India helpless and pitiable. The Currency Act of 1927 is a dead letter. It is now awaiting only a formal burial. At present the pound sterling is off gold. Therefore our rupee, also, being linked to it, is off gold. No steps were taken by Government to prevent gold going out of India and thus to strengthen our reserves for maintaining the currency on a sound basis. Only recently the same irresponsible policy led the Government to sell our silver reserves at uneconomic prices. These exports of precious metals from India, it is important to note, were made to strengthen the tottering position of the Bank of England. The candle was thus kept burning at both ends. Where could this deliberate irresponsible policy lead India to, except helpless dependence on England and linking of the rupee to the pound sterling?

England may or may not, at any time, be off gold. But the 18d. ratio is intolerable. India from all quarters and directions must proclaim that She shall not any longer tolerate the present injustice to her home producers. The best course would be to leave the rupee to find its own level, and thus to allow India to reap the full benefits of a higher price level, in which lies her immediate economic salvation, but which She is not able to do at present.

The advent of the Reserve Bank only accentuates the necessity of such a measure, rather than leaving things as they are on the pretext that the Reserve-Bank will do what is right and proper.

N. C. Kelkar,

POONA.

The rupee it is true has depreciated when compared to currencies still on the Gold Standard, to the same extent as Sterling to which it is linked. Sterling has depreciated 33½%.

The par value of prewar currencies were

The £1 Sterling London	=	£1 Australian.
"	=	£1 New Zealand.
"	=	Rs. 15/- Indian.
"	=	\$ 4.866 Canadian.
"	=	\$ 4.866 U. S. A.

The values of the same currencies today are

One £1 Sterling London	=	£1/5/- Australian.
"	=	£1/5/- New Zealand.
"	=	Rs. 13/15/4 Indian.
"	=	\$ 4.64 Canadian.
"	=	\$ 4.60 U. S. A.

The position within the Empire since 1914 is that depreciation has taken place by the following percentages.—

£1/- Sterling London has depreciated by	33½%
£1/- Australian " " "	50%
£1/- New Zealand " " "	50%
Canadian Dollars " " "	30%
Indian Rupees " " "	21%

Canadian exchange is 3 or 4% below U. S. A. Dollars, and the U. S. A. exchange is, at the moment of writing, jumping up and down and there is every likelihood of its going above the old par of 4.866 to the £1/- in which case the depreciation would be the same as the pound namely 33½% and this would bring the Canadian depreciation to a similar percentage.

Now as Australia, New Zealand and Canada are all agricultural countries it follows that within the Empire, India is at a great disadvantage in disposing of her produce. A reduction of the rupee to s1/4d would be a help to India in the English markets where the old parity would be restored, but an even lower exchange value might do more good in raising the prices of agricultural produce and increasing the purchasing power of India.

The rupee must however be linked to sterling as the Indian Government has such large-sterling commitments.

It is advisable that these commitments should be a stationary figure for Budget purposes and not liable to wide fluctuations as might take place if the rupee were not linked to sterling.

If the Indian Rupee were standing at s1/4d or lower the Japanese Dumping menace would never have reached the dimensions it has. Indian cotton would be so much cheaper than American that Japan would have taken more than the largest quota that has been suggested during the Indo-Japanese negotiations.

J. Ramsay Scott, M. L. A.

CAWNPORE.

The Sh. 1/6 ratio was forced on India in 1927 by a majority of two in the Legislative Assembly. This ratio had begun to creak long before it was put on the Statute in April 1927. Enormous amounts of currency had to be contracted and/or deflated from then upto 21-9-1931, when England herself went off Gold standard. The most rich and important countries in the Western world have gone off their pre-war parities to save their agriculturists and/or industries but India is yet kept on the appreciated ratio of Sh. 1/6 sterling.

"With the passing of the Reserve Bank Bill if no decision is taken regarding the ratio, I have no doubt that according to the White Paper this important question will be barred to the future Legislature until (1) it suits the India Office to authorise the Viceroy to give his assent to such discussion or (2) nature breaks the currency system of India by one of its many vagaries in local or world factors and conditions. In either case the danger to India is undoubted. I suggest that the public and your League should press for a definite review of the existing conditions by Government and the Legislature before the Legislative Assembly consider and pass the Reserve Bank Bill.

Purshotamdas Thakurdas,

BOMBAY.

India's case for a depreciated exchange is very simple. She is a debtor-country. For home charges alone she must find about 40 crores. Then there are investments in jute, tea, cotton and coal besides banking, insurance, shipping and real estate etc. Last comes the earnings of those who happen to be in public or private employ or belong to the different professions. Every foreigner who has not made India his home must remit abroad his savings whether they form part of his business profits or of interest on the capital invested or of the wages that he has earned. No one can very accurately estimate how much all this amounts to. But it must be between eighty to a hundred crores per year and all this has to be counted as our foreign liability. During the last 10 years India has hardly remitted on an average more than 25 crores a year. Thus her foreign indebtedness has been increasing and with it her annual liability. Will India ever be able to pay? That is a question which has been puzzling me all along. Like Germany she may have to default. But those who want her to pay have to create favourable circumstances for her. She can pay only in commodities by maintaining an export surplus sufficient to meet her yearly liability. The curtailing of imports through tariffs is one of the means to that end, but a much better way is to increase our productivity and give a stimulus to our exports by cheapening them in the foreign market. Here comes in the justification for a devalued rupee.

England is a creditor country. She imports more than she exports. She may, therefore, desire a limited rise in prices just to see the solvency of her debtors maintained, but she naturally could not welcome any great rise. America also is a creditor country and still continues to increase her investments abroad. These investments belong to the financiers or the bankers who may not, like England, approve of much higher prices; but the American agriculturist who is very hard hit naturally wants a considerable rise. President Roosevelt being a farmer's man is therefore planning a rise in prices to help the agriculturist and he has partly succeeded. But if the American agriculturist wants a rise in prices, the Indian agriculturists want it still more. His debts amount to 900 crores and are fixed in terms of rupees. He has also other fixed liabilities like land revenue. On the other hand, his produce has got no fixed value. The result is that he has to pay the same amount of

revenue and interest charges as he had to pay when wheat was sold at Rs. 7 per maund, cotton at Rs. 30 per maund, and jute at Rs. 10 per maund. Now when the value of his produce has fallen by two-thirds without any corresponding reduction in his liabilities, his margin of profit has disappeared. He cannot make the two ends meet. He is ruined and seething with discontent. He had to part with his gold to save his land and cattle but he had not a gold mine.

Eventually he must default and revolt. With him India's default becomes inevitable. It is clear thus that our interest is not identical with that of England. Being a creditor and an importer country England does not require as high a price as a debtor and an exporter country like India does. To link the rupee to sterling at an inflated ratio is thus a monstrous outrage on India. The rupee must find a much lower level if the cultivator is to be saved.

G. D. Birla.

CALCUTTA.

Unless the present wrong exchange ratio of Sh. 1/6d is given up and some other rate more suitable and helpful to our trade and economic conditions is adopted, the trouble and distress in our agriculture, commerce and industries will continue whatever the Government and the public may do to ameliorate those conditions; and unless our agriculture and industries are at least tolerably prosperous, labour and unemployment problems will continue to worry us, not to speak of the falling Government revenues, decreasing Railway earnings and increasing tax burdens.

The thing that is wanted is a rise in the commodity prices to enable the agriculturist at least to cover his cost of production and to meet the cost of his half-starved life. Only if the agriculturist gets better prices for his produce, will he have some purchasing power to use agricultural and industrial products. For, it is also

necessary that growers of certain kinds of agricultural produce must be in a position to use more kinds of agricultural produce of others and pay better prices for them to bring about a general rise in the level of prices for agricultural produce all round. To attain all these desirable and very essential objects there is only one way open to us and that is to raise the internal rupee prices of commodities without affecting our foreign outlets, that is to say, without disturbing the export parities as measured by foreign currencies. For that purpose, we will have to devalue our rupee, that is, lower our exchange ratio to a more suitable level. When such strong countries as Great Britain, America and Japan, who were swearing by the Gold Standard, have found it necessary to devalue their currencies to ameliorate their industrial and agricultural conditions, one cannot see why England should stand in the way of India adopting a similar course in spite of the fact that India had all along been crying against 18d ratio and for a lower and more natural rate.

On principle it would be better not to link our currency to sterling, as the currency of no other great country is linked to that of another. However, I am not quite against such linking for the present. But, if there must be a linking with sterling, it must be at a more suitable and natural ratio. Personally I think 14 or 15 pence will be a suitable rate for our present external trade conditions.

The present trouble in the country is much more economic than anything else. The way in which the Government have handled the exchange question has created a wide-spread and deep grievance in the country and it is of supreme importance to put an end to that grievance by immediately rectifying the present wrong exchange policy and to bring about contentment in its place. Even the British industrial interests would thereby be best served, as, only, if the Indian masses are prosperous and their purchasing power is better, they can use more British articles.

M. Jamal Mahomed,

MADRAS.

The shameless manner in which the Reserve Bank Bill is being hustled through the Assembly calls for immediate action in order to save India from being bound hard and fast to a one-and-six-penny Rupee.

The Reserve Bank Bill pins down the ratio at this figure. (Vide Sections 40 & 41).

India can no longer tolerate the 1/6 ratio but calls out for a depreciated rupee in the interests of the 235,000,000 souls in this country, who are entirely dependent upon Agriculture. Those who have the genuine interests of the country at heart should join the Currency League (no subscription) and help in the fight to get the present ratio reconsidered before the Reserve Bank Bill is hurried through the Assembly. The Currency League is an "All India" movement, devoid of politics, and only acting under the dictates of the economic position of the world in general and this country in particular. From all countries at the present moment comes the universal cry of "Raise Commodity prices" and by various methods all are straining their utmost towards that end. Our position in India is perfectly clear, by the depreciation of the Rupee we can at least tend our assistance in raising commodity prices in this country which will be a boon to the agricultural masses and incidentally relieve them from their indebtedness, increase their purchasing power, and this in turn, will reflect upon all other Branches of business and Industry in this country. The time for immediate action has arrived. Join the Currency League and help to tide over the depression from which this country is suffering under a 1/6 ratio.

H. H. Sawyer,

BOMBAY.

The pegging of the Rupee exchange at 18d. has brought in its wake considerable harm to the economic interests of the country. It is really tragic to note that while countries like England, America, Australia, New Zealand, Japan etc. have depreciated their currencies suitably to their requirements, the Government in this country have thought it fit to cling to the old rates of 1s. 6d. The action of the Government in keeping the currency of India pegged at an over

valued level becomes more regrettable when one recalls their previous grave mistakes in fixing the ratio at 2s. gold in 1920 and at 1s. 6d. gold in 1927 both of which have resulted in disastrous consequences to the agriculture, commerce and industry of India. The ignominious failure of the 2s. gold ratio within only a few months after its introduction should have taught a better lesson to a Government willing to learn and profit from the past mistakes. That however, was not to be. In spite of repeated and emphatic protests of commercial community and the public of India the 1s. 6d. ratio was put in the Statute Book in April 1927. The maintenance of the ratio at a higher level necessitated continuous contraction of currency which has had very harmful effects, as he who runs may see, on the country. Prices in the country have recorded a precipitous fall to an extent which does not reimburse the cultivator even to the extent of the cost of production. The calamitous effects of such a course of action on the part of the Government who claim, in season and out of season, to be working in the interest of the masses, can hardly be condemned too much. At this juncture, viz., of the passage of the Reserve Bank Bill, if the grave injustice done to India in this matter is continued, I feel sure that it will have still more harmful repercussions on the economic and industrial situation in the country. If the 1s. 6d. ratio is retained, in the Reserve Bank Bill the Legislature of this country will be debarred from opening the question of its revision till the Viceroy is pleased to give his assent to initiate such a proposal or till the strain becomes too much to be borne by the Currency System of India. In the latter case, grave economic wrong will have resulted to the country which would have far reaching consequences on the already distressed condition of the proverbially poor agriculturists in this country. Unless the rupee is devaluated and unless there is a considerable increase in the prices of commodities, I see no other suitable way of giving any relief to the masses of this country whose economic condition is pitiable.

I trust that the Currency League will spare no pains in carrying on the propaganda till its objective viz., of the devaluation of the currency is achieved.

Amrit Lal Ojha,

(President, Indian Chamber of Commerce,
CALCUTTA.)

The ratio question has been so much agitated in the past, and such a volume of literature has grown round it, that I think it is hardly necessary for me to write anything in detail in regard to it. I am a member of the Joint Select Committee of both Houses of the Central Legislature, which is just now sitting in Delhi to consider the Reserve Bank Bill and the Imperial Bank of India Bill; and one of the provisions of the Reserve Bank Bill virtually seeks to commit the Committee to 1s. 6d. ratio. Those of us who hold that this ratio has been arbitrarily fixed, and is gravely injurious to the interests of this country, can hardly be expected to acquiesce in this proposal. More than 75 per cent. of the population of India live on agriculture, and the unprecedented drop in prices of primary products has caused wide-spread misery, and our greatest need is a substantial rise in the prices of raw materials and food-stuffs. This can hardly be achieved so long as we have the present ratio. There are other important considerations too, but I need not enter into them. I recognise that any talk of a change in the ratio policy at the present moment is bound to have a far-reaching unsettling effect, and lead to undesirable speculations, which ought to be avoided, if possible. But the question must be considered from the point of view of the vital interests of India.

Gaya Prasad Singh,

R. L. A.

* * * * *

In Britain, America & Japan, the external value of currency is made subordinate to the requirements of domestic trade conditions and price levels. But paradoxically enough, in India all attention is paid by the Government to maintain the external value of the Rupee and the net result is that internal prices are depressed.

If the Rupee ratio is now stabilised at 18d. Sterling, subsequently the Government will frighten the public with the serious consequences of a change in the ratio and will not allow any change.

Further with 18d. Sterling ratio it is certain that there will not be any trade recovery and improvement of price level in India even though the same will take place in all the countries of the world.

As such, this is the time to impress upon the Government the great need and necessity of lowering the exchange value of the Rupee not only in the interests of India but also in the interests of Britain.

Chunilal B. Mehta,

BOMBAY.

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The history of the Currency policy of the British Government in India forms a tragic reading. It has always been dictated by British interests. And as England's economic life necessitates finding of market for her goods, and where can she find better market than in dependent India? The monetary policy of the Country has been always moulded to further that purpose.

After the war, India was the only country in the world which deliberately appreciated the value of its Currency. When France, Italy, Belgium and hosts of other countries found it impossible to maintain the purchasing power of their monetary unit at their old parity and were compelled to immensely depreciate it, the Indian Government, in pursuance of British interests, raised the gold value of the Rupee. India vehemently protested against such a step and foretold that it would mean terrible ruin for the country's finances, but it was merely a cry in the wilderness. The inexorable economic laws, even though their operations may be temporarily postponed, must, however, in the end become effective. The Government, after involving the Country in huge losses, was forced to give up attempts to maintain the Rupee's price at 2s gold, and thereby proved the correctness of Indian view. Once more against the country's united protest, the ratio was fixed at 1/6d gold in 1927. There is no doubt that the Government manoeuvred to artificially create a set of favourable circumstances for the exchange to reach 1-6d and then used that position as an argument for stabilizing

Rupee at that level. But the economic factors of India, which must in the end determine the purchasing power of her money, gave a sharp warning against the maintenance of the Ratio for any considerable length of time. Things were approaching breaking point in 1931 when England's going off the gold standard provided a God-sent opportunity. Export of distress gold that has gone out of India to the extent of nearly £ 150 million gave us more than sufficient supply of foreign trade for the maintenance of the Ratio. Export of commodities has greatly decreased and it is not at all sufficient in itself to keep the Rupee's Sterling value at the present level. The "Gold Stream" must sooner or later dry up and then the Country will have to face the music of the "appreciated rupee".

India is a land of small incomes and a large portion of such incomes is earmarked for fixed charges in the shape of interests rates, rent, taxes and the like. There is huge rural indebtedness. As prices have greatly fallen the burden of such payment, as measured in Commodities, has tremendously increased. Everywhere one hears of defaults and deficits. There is a general demoralisation and want of confidence. It is of the utmost importance from political, social and economic points of view that the Rupee's connection with Sterling should be severed without any further delay. And we must leave it solely to the economic factors to determine what Rupee's purchasing power should be. Our money will then perform its true function of maintaining prices stable and holding the balance even between debtors and creditors.

Haridas Lalji,

Honorary Secretary,

Buyers' & Shippers' Chamber,

KARACHI.

No argument is now needed to show the desirability of depreciating the rupee. Even a child realises the necessity of an increase in the prices of commodities. Sir George Schuster at the Ottawa Conference and the Government of India delegates at the World Economic Conference stressed its immediate importance in India. The condition is so grave that the country cannot wait patiently till the prices rise in the whole world.

How serious the position is will be clear from a few figures relating to Bengal. After deducting the quantity of foodgrains required for consumption by the Agriculturists themselves, the average annual harvest value of the crops for the decade 1920-21 to 1929-30 was Rs. 72 crores. The commitments of the agriculturists for rent, cess and interest amounted to about Rs. 28 crores. They had thus a purchasing power of Rs. 44 crores per year.

In 1932-33, the harvest value of such crops fell to about Rs. 32 crores only, while their liabilities continued to be the same as before viz Rs. 28 crores. As the two sides almost balanced each other, the agriculturists were forced to make defaults and to sell their life's savings and live on capital. This state of affairs also made the position of the landlords, merchants, professional classes and all other sections of the people difficult and even precarious. The low prices of agricultural crops have upset the whole community.

To give relief, the first and prime necessity is to increase the prices. The protection of the interests of the masses in this country is much more important than submission to the London City interests. To think otherwise is nothing short of perversity and callousness. The only method visible to us by which the desired increase in prices can be brought about is the lowering of the exchange value of the rupee. This method should be adopted without any delay whatsoever. It is ridiculous to stick to the 18 pence ratio for the pretence that a disturbance thereof will shake the credit of India. It is not a starving, but a solvent, individual or nation that enjoys the best credit. France, Belgium, Italy, etc. in the recent past and Great Britain, U. S. A. Japan, Australia etc now have not lost credit by depreciating their currencies.

I do not propose at the present moment to enter into the controversy as to whether the rupee should be delinked from or linked to the sterling. What is of moment is, by management of the currency, to see that the prices are adequately increased. There can be no doubt that a rise of at least 50 per cent should be brought about. When that result is achieved, there will be time enough to think, in the situation then existing as to what standard will suit the interests of the country best.

Any delay in carrying out this reform will intensify the misery through which the country is passing. India cannot be expected to live on capital for a long time. If Government will not, even now, do it gracefully, Nature is sure to have its revenge sooner or later.

D. P. Khaitan,
CALCUTTA.

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The Indian Chamber of Commerce, Calcutta, The Indian Produce Association, Calcutta, Southern India Skin and Hide Merchants' Association, Madras, Buyers and Shippers' Chamber, Karachi, The Indian Chamber of Commerce, Tuticorin, The Indian Merchants' Chamber, Bombay, The East India Cotton Association, Bombay and the Marwadi Chamber of Commerce, Bombay, have passed and forwarded resolutions to the Government of India expressing their strong support to the object of the Currency League of India, viz : to oppose the continuation of the 18d. ratio as is sought to be done through the Reserve Bank Bill and to bring about an immediate devaluation of the rupee. They strongly hold that time has now arrived when Government should review the whole position in regard to the ratio and have, therefore urged that immediate steps be taken in this direction so that the present inflated Rupee may be devalued and the ratio be fixed in the best interests of Agriculture. Trade. Commerce and Industry of India.

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The next Bulletin will contain the proceedings of the public meeting held in Calcutta on the 31st October 1933, under the auspices of the Currency League of India.

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CURRENCY LEAGUE OF INDIA

BULLETIN NO. 6.

Proceedings of a public meeting of the citizens of Calcutta held at the Bengal National Chamber of Commerce on Tuesday the 31st. October 1933 under the Presidentship of Mr. Nalini Ranjan Sarkar.

Speech of Mr. H. H. Sawyer, Bombay, at the meeting of the Currency League of India, held on the 25th. October 1933 at the Sir Cowasji Jehangir Hall, Bombay.

**JEHANGIR WADIA BUILDING,
ESPLANADE ROAD, FORT,
BOMBAY.**

CURRENCY LEAGUE OF INDIA

OBJECTS

1. To encourage and provide facilities for a systematic and impartial study of questions relating to currency, so that a currency policy best suited to the interests of the country may be evolved.
2. To educate and organise public opinion with a view to opposing the continuation of the 18d. sterling-ratio as is sought to be done through the Reserve Bank Bill; and to bring about an immediate devaluation of the rupee.
3. To do all other things for the promotion of the above Objects.

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Currency League of India.

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Proceedings of a Public Meeting of the citizens of Calcutta,
held at the Bengal National Chamber of Commerce,
on Tuesday the 31st October 1933, under the
Presidentship of Mr. Nalini Ranjan Sarkar.

Presiding at the first meeting of the Currency League at Calcutta
held in the Bengal National Chamber Hall on the 31st October, 1933,
Mr. N. R. SARKAR said:—

"As a country India is rather poor in institutions and associations that make it their object to investigate and study the common problems of the country. Nowhere is this more true than in the sphere of economic investigations. The large size of the country, the diversity of its climatology, the variety of its products, the distances that separate markets from manufacturing centres, our extensive international economic contacts, our peculiar relations with England, the lack of balance between our agriculture and industry, and the preponderance of raw materials in our exports, all have contributed in making our economic problems particularly difficult to understand, guide or check. For an economically young and advancing country like India, the observation and interpretation of current facts and contemporary problems are a matter of vital necessity, if we desire to influence the former and solve the latter so as to receive the maximum benefits from our economic resources and opportunities. In proportion as this country advances economically, we shall feel progressively the necessity for a well-informed public opinion. Economic policies and programmes, in order to be effective and to yield the maximum benefits, must be based upon their intelligent appreciation by the country at large. An enlightened economic policy often founders on the rock of an unenlightened public opinion in the country. Even an imperfect economic

policy sometimes bears fruits, because the people realise its implications and can intelligently co-operate with it. The leaders of economic thought, the businessmen and the Government of this country, therefore, must bestir themselves and educate public opinion. The advantages of a fairly educated public opinion are clearly illustrated in England and America. It was a fateful step that England took in September, 1931, when she decided to abandon the gold standard. But there was the minimum excitement in the country. The leaders of public opinion, the press, the businessmen and the people quickly realised the gravity of the situation. They co-operated wholeheartedly; they responded magnificently to the appeal of the Government; and to these is largely due the success the policy has achieved. In America, President Roosevelt's bold economic programme and drive against depression evoked the enthusiasm and support of the nation. The nation realised the situation and has rapidly fallen into line with the Administration. Such a position is unthinkable in this country, in the present political situation and also in the present state of comparative national ignorance. That is why I feel that the Currency League ought to be of immense service. If it can educate public opinion and can enable it to understand the advantages, the evils, the pitfalls, the limitations, the far-reaching consequences of economic policies relating to currency and exchange and the allied problems of trade, tariffs and taxation, it will have achieved commendable results.

I would refrain from making a lengthy retrospect, on this occasion, of the currency developments in India and would confine myself to the issues, that are pressing for an immediate solution. We have been endowed with a system of currency and exchange which baffles description. For sheer inexplicability, manipulative facility, and complicated mechanism nothing approaching it has ever been invented. Internally the Rupee, a silver coin, is unlimited legal tender. But it is not a full weight coin. Externally gold was our standard till about two years ago but it almost imperceptibly vanished in September 1931, when our Finance Member received some mysterious communications and decided that our rupee was not to be regarded as equivalent of 1s. 6d. gold, but a token representing a fraction of the depreciated sterling.

After the Rupee was cut away from gold and tied on to Sterling, we do not know where we are and what exactly is the nature of our currency and how its external parity is being maintained. As it is today, the Rupee is neither fish nor fowl nor bright red herring. What is the position today? It would be a truism to say that the Rupee is over-valued at 18d. Even during the comparatively better years of 1927-28 it was overvalued. The position is worse at the present time. Our merchandise trade balance has shrunk and prices fallen very low. From 86.5 crores in 1928-29 it declined to 79 crores in 1929-30, to 62 crores in 1930-31, to 34.8 crores in 1931-32 and to the almost unprecedentedly low figure of 3.4 crores in 1932-33. No doubt some of it is due to world depression, but he would be a bold man who can assert that a decline from 86.5 crores to 3.4 crores within a period of four years is entirely due to depression. If so, he would find it more difficult to explain why the depression has affected our merchandise balance to such a greater extent than many other countries. Within the country itself, how else should one explain the fact that the fall in India's exports has not been followed by a proportionate decline in her imports, though both were to be affected by depression in much the same way? Addressing the Annual Meeting of the Federation of Indian Chambers in 1931 the Finance Member asserted that over-valuation of the Rupee was not borne out by any of the indices of the wealth of the country, and he observed that the exports of India had not suffered any diminution within the first few years of the fixation of the new ratio. If he would still accept the export trade of this country as an index of the proper valuation of the Rupee, I hope he will now revise his views in the light of more recent figures.

The natural consequences of such a serious decline in the volume and value of our trade would have been the dislocation of the exchange ratio. Just as the situation was beginning to be grave and get out of control came the world currency debacle of September 1931, and the linking of Rupee to Sterling. From the international exchange situation that resulted, a premium on gold emerged and export of gold from India received encouragement. In the absence of natural support from economic conditions and genuine economic causes, the 18d. ratio has been depending for its maintenance upon gold exports. The country is fully convinced that the

exchange ratio would have broken down irretrievably if it had not received unexpected assistance from gold exports. In these circumstances can the Government continue to hold that it is the right ratio? Any exchange ratio that depends for its uncertain existence upon a dangerous stream of gold exports stands self-condemned. When Britain's stock of gold was threatened, she did not hesitate to jettison the gold standard and abandon the parity of exchange with the Dollar. Again, neither did America hesitate for a moment to jettison the parity of the Dollar with gold and even to impose an embargo on gold exports when she was similarly threatened. What a remarkable difference between the way things are done in India and the way they do it in free countries! England and America hanged the exchange and kept gold. The Government of India threw away the gold and hung on to the exchange.

An overvalued Rupee necessarily means depressed prices; on the other hand, higher prices are the greatest need of the time. A higher exchange value of the Rupee is baffling all efforts at raising prices, because raising prices simply means the lowering of the value of money. Lowering the internal value of the Rupee would certainly react on its external value and upset the Government of India's exchange cart. During the last four years, in their desperate efforts to maintain the exchange ratio, the Government have often had to resort to drastic deflation, which again have reacted depressingly upon prices. In India, the natural adverse reactions of world depression have been reinforced by the Government's unwise attempt to jack up the exchange value of the Rupee, pulling down the internal prices. The 18d. ratio is sitting like a heavy, ugly demon upon the chest of our price-level.

I shall illustrate in another way the patent disadvantages of the present ratio. Everybody has admitted the advisability of raising prices and the necessity for taking immediate steps to bring it about. The Government of India endorsed it. The Indian Delegation expatiated upon it at Ottawa. Even the Finance Member has sung hymns in praise of the idea. There has been going on for some time a heroic international attempt to rescue prices. But, may I ask, what the Finance Member of the Government of India has contributed to it, beyond paying lip-service to it? Nothing. Not because

he does not sincerely believe in it. He does believe in it; but he is powerless, if at the same time he has also got to tend the ratio. It is impossible for him to adopt a bold and independent price policy as long as the exchange ratio is there. This country should have to follow wherever England leads us, do whatever England does. We cannot go further, and certainly not in a different direction. There may be some force in the argument that in the present state of world currency unsettlement, it may not be quite opportune to abandon all relation to Sterling but it does not in the least warrant the maintenance of the present exchange ratio.

There might have been some advantage in September 1931, when the Rupee was forced off gold and linked to a depreciated Sterling. At that time, almost all our trade customers, except England, were on gold. But, soon after, one by one, they also began to abandon the gold standard, and simultaneously the advantage India was expected to receive also began slowly to disappear. With the extension of the "Sterlingaria" and the abandonment of gold by Japan, America etc., we have been practically switched back almost to the position in which we were in August 1931, and in some cases even worse. An analysis of our export trade with foreign countries tends to show that almost 50 per cent of our exports go to countries belonging to the Sterling group, with which we have no comparative advantage at the present moment, while countries off gold, as compared with which our position is distinctly worse, take more than 25 per cent; hardly the same percentage being taken by countries still on gold with which alone can the present exchange value of the Rupee possibly give us any advantage.

The price indices of Great Britain and India at once reveal a very significant disparity which disproves the hopes raised by the Finance Member that with Sterling off the gold and the Rupee linked to Sterling, India would share in common with England the benefit of a depreciated currency. Whereas between September 1931 and August 1933 wholesale prices in Great Britain rose by 3.5 points, they actually declined in India by as much as 3 points. A net difference of 6.5 points proves conclusively that this country has not realised anything like the benefits that were expected to be

reaped simply by linking the Rupee with a depreciated Sterling without lowering the ratio. Indeed the fall in prices in India has been singularly grave, there being a shrinkage in the value of agricultural commodities of 50 per cent since 1928-29.

The extension of "Sterlingaria" and the abandonment of gold by countries like Japan and America would have also deprived England of the advantages of depreciation; but she has sought compensation in the agreements signed at Ottawa, and others concluded subsequently with many non-empire countries like Argentina, Denmark, Norway, Sweden, Germany, etc., for the expansion of her exports. No such systematic efforts have been made to widen the channels of India's exports, although as a country with large foreign obligations it is essential to her very economic existence to encourage exports with a view to have a large and steady favourable balance of trade.

In order to illustrate the absurd implication of the present position, let us assume for a moment that England decides to raise the value of the pound, in other words, to deflate, for reasons of her own. What would happen to the Rupee? As soon as the value of Sterling begins to go up, the exchange value of Rupee will begin to slide down. In order to maintain the fixed ratio India also would at once have to deflate, even though India's economic interest might demand higher prices. Under the fixed Rupee-Sterling ratio, therefore, India's interests will be served only if they are identical with England's. If it were so, it would be a mere accident; it need not necessarily be so; and yet our whole exchange policy to-day hangs on this accident. As a matter of fact there is conspicuous absence of such identity in most cases, as the interests of the export trade of the two countries are remarkably divergent, India being an exporter mostly of raw materials and England of finished goods manufactured from the same. Gentlemen, I leave it to you to judge the wisdom that underlies such policy or the solicitude it reveals for advancing the interest of this country. A fixed exchange ratio is the very antithesis of a flexible price policy. Whenever I think of the Rupee-Sterling ratio, the picture of a weak donkey tied to the strong legs of a hefty farm-horse comes to my mind.

The Hon'ble Finance Member has always advanced the plea in support of the 1s. 6d. ratio that in view of India's foreign obligations and especially in view of the Home Charges, a fixed exchange ratio with Sterling was not only helpful but also necessary. De-linking the Rupee from Sterling or a lowering of the ratio would according to this standpoint inevitably entail an enhancement of the burden of these foreign obligations. There is no doubt some strength in the argument; but to say that because we have debts to be paid in Sterling, the Rupee must have a fixed and high Sterling value is not convincing, nor is it supported by the examples of other countries including England herself. England's debts to America in Dollars is, if anything, more than what we owe England in Sterling; and yet when it became necessary, England did not hesitate to cut away from gold and leave the Sterling-Dollar parity to adjust itself. The only precaution she took, was to maintain a reserve to be utilised to prevent undue depreciation of Sterling. I hope our Finance Member will not argue that Britain did not know her business.

The Government have generally argued that lowering the exchange ratio would entail heavier burden on taxpayers on account of larger rupee remittances; but the expansion of our export trade and the consequent rise in the economic well-being of the country would, we believe, have enabled the Government to meet these obligations without much strain. Any deficiency should have been made up by corresponding economy in public expenditure; not that I believe that an export trade would have expanded in all commodities, or that prices would have risen in all directions to the same extent. The question as to what articles would particularly rise in price from a lowered ratio or receive a stimulus in export and the determination of the nature and extent thereof constitute no doubt a very important problem which, however, I do not propose to pursue at length on this occasion. I feel that it deserves careful investigation, by the Currency League. There cannot, however, be any doubt that there would have been a substantial net increase in our export trade as well as an appreciable general rise in price. Even in respect of those commodities of which the possibility of expansion of export may be considered problematical owing to the slackening of demand, such as in the case of jute or

rice, or even nil as the case of Tea row subjected to a Restriction Scheme, there would remain a substantial advantage to be reaped at least by the agriculturists who would obtain a higher rupee value for the same volume of exports, and spend only a fraction thereof on their consumption of imported goods that would of course sell a little dearer as a consequence of the lowered ratio.

Devaluating the Rupee, it is sometimes argued, will disturb the relation between creditor and debtor and that it will involve hardship on earners of fixed incomes. My reply is that at present the creditors are receiving hardly anything, and, if prices were raised, they at least stand a chance of melting the frozen credit and getting some return for their money which they will cheerfully accept. Moreover, by devaluating you will actually not be discriminating against any particular class, but will be merely restoring the economic justice which was violently disturbed by years of progressive deflation and rise in the value of money. A rise in price, even while it may entail some hardship on wage-earners and salaried men, cannot reasonably be opposed from the standpoint of the latter as the rise in price is needed for the very preservation of the producing interests which provide employment for the former. Besides, a renewed prosperity of agricultural and industrial interests is itself likely to be conducive to wider employment and an enhancement of salaries and wages.

In justifying the linking of Rupee to Sterling in September 1931, the Finance Member admitted the necessity for devaluating the Rupee to some extent; but, at the same time, he also said that in this matter India cannot take isolated action and must wait for a concerted international policy. It may be relevant to inquire whether the Finance Member waited for concerted international action when for years he was pursuing a policy of relentless deflation, or again when in September 1931 he pushed the Rupee off the gold. Further, if there is any concerted international policy at the present time, it is the movement to raise prices; but the Government of India do not yet appear to have joined the concert.

May I inquire what is the future policy of the Government in regard to the exchange ratio? The preamble of the Reserve

Bank Bill marks some advance. The exchange ratio of 18d. is no longer considered sacred and inviolable. Its "temporary" character has been fairly admitted. Even so, the Government are singularly uncommunicative as regards their future policy. We know that in these matters some sort of secrecy must be maintained, but the country must at least know under what circumstances the Government would consider it advisable or necessary to think of a more permanent Currency and exchange policy. While the Reserve Bank Bill does envisage a re-examination of the whole question, the time of examination and the authority which will appoint examiners have not been definitely indicated.

Gentlemen, it is not my object on this occasion to discuss our ratio problem in all its aspects. I have only tried to meet a few criticisms often urged by the Government in defence of the existing ratio, with special reference to such of them as have an altered significance in the prevailing circumstances. I must, however, point out that the problem before us is not one of meeting arguments on particular issues alone. The problem, which underlies them all and concerns us most, is that there must be a rise in the level of prices if our industry, trade and agriculture are to be saved from the present parlous state. The need is equally urgent to widen the channels of our export and so to increase the volume of our favourable trade balance from which alone we can possibly meet our foreign obligations. For some years the trade balance has alarmingly dwindled away and the gap had to be filled up by drawing upon the private reserves of gold of the people. But, I should like to ask the Government to ponder for a moment, before it is too late. "How long can this process continue?" India is not normally an exporter of gold and the private reserves of the people are not inexhaustible. The Government must satisfy themselves whether they can possibly resist our claims and still cling to the old ratio when the limit of gold exports has been reached. If we clearly realise that our objective is to restore the normal economic features of our foreign trade and to save our industry, agriculture, and trade from their present plight, it becomes impossible to escape the conclusion that the greatest stumbling block in the attainment of the object is the overvalued Rupee, which has itself brought about in its trail or accentuated the evils we now seek to

remove. The country and the people will not certainly feel assured if the Government only seek to discharge their responsibility by pointing out the difficulties and dangers that stand in the way. They must come out if they regard the ratio to be inexorable, with a positive and definite scheme by which it should be possible to remove the present difficulties and retard the threatened dangers ahead."

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Mr. A. L. Ojha, who spoke next said :—

"As you are aware the currency of a very large number of the countries of the world has been driven away from its moorings during the last few years, and India also is no exception to this rule. Currency stability appears to be far from sight. Various countries of the world have depreciated their currency in order to meet their requirements. The action of the Government of India however, has been unique in that they have actually overvalued the currency when others have thought it fit to depreciate. The result of this policy of overvaluation in the face of the devaluation of other countries, has been disastrous. The Indian market has been invaded by the cheap imports from foreign countries whereas our exports have suffered a great decline. The result of the Exchange value of the rupee at 18d. can also be seen in the tremendous fall in prices both of agricultural products and other commodities.

I am convinced that the primary need for easing the economic situation in the country is to effect a general rise of prices of commodities, particularly of agricultural commodities which are the main stay of the population of this land. You are all aware that the Jute cultivator is absolutely starved due to the meagre monetary return which he gets for his jute. Similar is the case of Cotton and also of various other commodities like rice, wheat, etc. The industries too, are badly suffering. They have been

compelled to ask for protection. The open invasion of the Indian market by the products of industries of other countries, anxious to keep their plants going at any cost, has resulted in ruin to the various industries. The campaign of 'Buy Swadeshi' which has been of some help to industries, can also not go beyond a particular limit. The economic stamina of the country having been undermined, price plays a very important part in determining purchases. In spite of the best of desire to purchase Swadeshi, it becomes prohibitive for many men to do so in their present niggardly state.

I must emphasise that the inflated and overvalued rupee is about the most important cause for the depreciation in agriculture and industries. In spite of vehement protests from the public, the Government of India seek to perpetuate the wrong done to the country by continuing the ratio at its present level. I feel sure that the time has now arrived when India can bear no more burden and in the national interests of the country it is imperative that the rupee should be immediately devalued. I trust that all the people in this Province will lend their full support to the Currency League of India in their efforts for bringing about a devaluation of the rupee. A ratio which has brought disaster, ruin and the economic emasculation of our agriculturists and masses who number 4/5ths of our total population and who constitute the mainstay of the country, stands self-condemned and should be shrouded without delay.

Mr. M. P. Gandhi, who spoke next, thanked Mr. Sarker for his excellent speech and for having agreed to preside over the first meeting convened at Calcutta under the auspices of the Currency League and expressed the hope that the activities of the Currency League, started so well, would bear fruit and succeed in the devaluation of the rupee. In view of the fact that there appeared to be a consensus of opinion in the meeting regarding the unsuitability of the 18d. ratio, and the necessity of devaluating it, he did

not like to make any further remarks. He expressed the hope that the Government would pay heed to the considered opinion of the public on this question, and would undo the grave wrong done to India in this matter, at an early date, before the final passage of the Reserve Bank Bill, by fixing the exchange value of the ratio at a considerably lower rate.

Mr. N. R. Sarker thanked all who attended the meeting and expressed the hope that other economists would take part in future meetings in order to clarify the issue still further, with a view to educating the public in this matter. Bengal, he said, keenly felt that the value of the rupee should be depreciated at once, in the interests of the country.

The meeting was then dissolved.

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Speech of Mr. H. H. Sawyer, Bombay, at the meeting of the Currency League of India held on 25th October 1933 at the Sir Cowasji Jehangir Hall, Bombay.

LADIES & GENTLEMEN,

First of all let me make it perfectly clear that I am standing on no political platform, but that I am speaking from an entirely economic point of view, which is the right, and indeed, the only way of approaching the ratio question at the present juncture.

The whole world at the moment is endeavouring to raise the level of commodity prices, and various countries, by various methods, are striving their utmost towards that end.

At 1/6 Sterling our Rupee is over-valued, and to depreciate it is to, *ipso facto*, raise commodity prices, which is the only sensible thing to do in a country such as ours where nearly three quarters of the population are entirely dependent upon Agriculture.

Quite recently, H. E. the Governor of Bombay inaugurated a scheme for "Rural Uplift" in this Presidency. The "Currency

League" go further inasmuch as they offer "Rural Uplift" for the whole of India. That is why the "Currency League" is an "All India" movement.

The time for action has arrived. On Monday last, a Select Committee gathered together in Delhi to examine and report upon a measure known as the "Reserve Bank of India Bill" and woe betide India if the Reserve Bank Bill is passed by the Legislature before the ratio question is reconsidered.

The feverish, almost Gilbertian, haste, in which the powers that be are endeavouring to rush this Bill through the Assembly is the essence of bad taste, and people may be forgiven therefore if they should look upon this measure with the utmost suspicion and alarm.

The obvious move is to get the Reserve Bank Bill placed upon the Statute Book without delay, without due and proper consideration, and for certain particular motives.

Now what are these motives?

Surely they are not purely constitutional as some would have us believe!

One of the reasons, at any rate, is not far to seek and if you only refer to sections Nos. 40 and 41 of the Reserve Bank Bill you will obtain a ready reply thereto—namely the permanent fixation of the present one and six penny ratio.

Therefore, if once the Reserve Bank Act is successfully placed upon the Statute Book, the ratio question would appear to be forever silenced.

There are some, of course, who go so far as to say that a Reserve Bank for India at this juncture is unnecessary, or that the time for its establishment at this particular moment is inappropriate. From the point of view of economy alone this can well be understood, and the fear that this Reserve Bank may turn out to be a "White Elephant" and a very expensive one at that, is fast gaining ground in the minds of many people.

However that may be, the ratio question must be reviewed before this measure is proceeded with any further, and our Rupee must be devalued so as to assist our Agricultural millions over the present period of depression, increase their purchasing power, and reduce the indebtedness into which they have drifted since the 1/6 ratio condemned them to poverty, hardship and suffering.

Of course it must be admitted that a change in the ratio at this particular moment might bring about certain difficulties in the forthcoming Budget from which a retiring Finance Member would naturally shrink, but to paraphrase a well-known poet "Finance Members may come and Finance Members may go, but India rolls on for ever". Looking to the future, therefore, Budgetary difficulties should be regarded as disabilities of a more or less temporary nature and with a devalued rupee and the consequent rise in prices better revenue returns in the course of time may be confidently anticipated, not forgetting the increased collections in land revenue which, after all, is one of the Government's principal sources of income.

Some of my European friends are unfortunately protagonists of 1/6 ratio. Needless to say they are generally speaking "Importers" who stick to the fetish that a 1/6 rupee gives them an added impetus to trade, or that they obtain thereby some sort of hidden preference, but I would ask them all how their various businesses have fared during the past six years. Making ample allowances for boycotts, political troubles and other disturbing factors, they will all have to admit that their turnover has consistently dwindled. I can warn them that, if the ratio question is not speedily revised, and the country's purchasing power revitalised, their business will continue to dwindle.....even to vanishing point.

Ladies and Gentlemen, I am not here to discuss the merits or demerits of a 1/4 Sterling rupee on the one hand, or an entirely "Free" rupee on the other. I am here simply to join forces with those who urge that the Ratio question should be impartially reconsidered before it is too late.

Let us not be misled by detailed arguments within the ranks of our own Currency League; these can be settled later. At present we must fight, and fight hard, with a united front and with one fixed purpose in view, for the devaluation of the 1/6 rupee.

The ratio question must be Reviewed, Reconsidered and Revised.

Reviewed before the Reserve Bank Bill is passed.

Reconsidered in the light of present day economic conditions and

Revised accordingly, and immediately.

If these things are denied us then we must see to it that the Reserve Bank Bill should not be allowed to pass in the Assembly.

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ANNOUNCEMENTS OF THE WEEK.

- (1) A Public Meeting, under the auspices of the Currency League of India, was held on the 4th. November 1933, at Lahore, Lala Harkishanlal presiding.
- (2) A Public Meeting, under the auspices of the Currency League of India, was held on the 3rd. November 1933, at Delhi, under the Presidentship of The Hon. Mr. Hussain Imam, Member of the Council of State.

Another Public Meeting will be shortly held at Delhi.

- (3) A Public Meeting, under the auspices of the Currency League of India, is shortly to be held in the Bullion Exchange Hall, Bombay.
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Printed at "The Didmus Press" 33, Pitha Street,
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CURRENCY LEAGUE OF INDIA

BULLETIN NO. 7

Public Meetings at Delhi.

Proceedings of public meetings held under the auspices of the Currency League of India, on 4th Nov. & 8th Nov. 1933.

Delhi Office:—

19, Alipore Road, P. B. 59.

D E L H I.

CURRENCY LEAGUE OF INDIA

OBJECTS.

1. To encourage and provide facilities for a systematic and impartial study of questions relating to currency, so that a currency policy best suited to the interests of the country may be evolved
2. To educate and organise public opinion with a view to opposing the continuation of the 18d. sterling ratio as is sought to be done through the Reserve Bank Bill; and to bring about an immediate devaluation of the rupee.
3. To do all other things for the promotion of the above objects.

OFFICE-BEARERS OF THE LEAGUE.

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SHETH MATHURADAS VISSANJI KHIMJI.

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MR. JAMAL MAHOMED SAIB.
LALA SHRI RAM.
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LIEUT. P. S. SODHBANS.
MR. H. F. MODY.

TREASURERS:—

MR. F. E. DINSHAW.
MR. S. N. POCHKHANAWALLA.

SECRETARIES:—

MR. JAMNADAS M. MEHTA.
MR. CHUNILAL B. MEHTA.
PROFESSOR SOHRAB R. DAVAR.
MR. A. D. SHROFF.
MR. J. K. MEHTA.

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The first meeting under the auspices of the Currency League of India was held in Delhi on Friday, the 4th November, at the Hindu College Hall. The whole hall was packed and the audience included ladies and the elite of the city representing every community. Prominent among those present were:—

Sir Purshottamdas Thakurdas, the Raja of Kollengode, R. B. Lala Ramsarandas, Mr. A. D. Shroff, Sir Homi Mehta, Mr. D. P. Khaitan, Mr. Chunilal B. Mehta, R. B. P. Mukerji, Dr. Shroff, Lala Narain Dutt, Mr. Pothan Joseph, Prof. Chabiani, Dr. Somer, Dr. Kaul, Prof. Indra, Dr. Ragnath, Mr. Ramsay Scott and Lala Shankarlal.

The meeting commenced with Mr. Chunilal B. Mehta proposing the Hon. Mr. Hussain Imam (member of the Council of State) for the chairmanship of the meeting.

SIR HOMI MEHTA.

Sir Homi Mehta, who was the first speaker, said: Since the rupee was linked to the sterling at 1s. 4d. from the year 1925, the balance of trade of the country has been adversely affected. This adverse effect has been felt largely owing to the drop in the prices of commodities at wholesale rates, due not to a little extent to this high valuation of the rupee.

Giving elaborate statistics, Sir H. Mehta said that while a drop in prices has occurred in all countries, the same has been most precipitous in this country.

Continuing he said: It needs no elaboration that the total wealth of the country in terms of rupee has enormously been reduced and has therefore most unfavourably affected the balance of trade during the past two years. In India, a country characteristically with a favourable balance of trade, where the normal balance of trade was 68 crores in the decade of 1919 to 1929, the balance of trade for the year 1932 had shrunk to a small figure of Rs. 3 crores, and if it were not for the huge exports of gold

bullion worth Rs. 146 crores since September 1931, the condition of the country would have been really precarious. As a matter of fact if it were not for these exports of gold, the Government would not have been able to maintain the 1s. 6s. ratio and through sheer economic forces they would have been forced to shift to as low down as 12½d.

In fact, the present adverse balance of trade caused through sharply lowered prices has so much weakened the financial state of the country that it will not even now be any longer possible for the Government to maintain this ratio as they cannot now expect the continuance of gold export in the same proportion as has been for the last couple of years. The Indian peasant has parted with a good part of his distress gold and there is not much left with him to continue to do so any more.

Under the circumstances, therefore, before the Government themselves are forced through economic contingencies to bring the ratio down to a lower level, it would be an opportune moment for them (without losing their prestige) to bring it down to 1s. 4d.

As far as the problem whether the rupee should be at all linked to sterling or whether it should be allowed to find its own way, it would be desirable to incorporate a proviso in the Bill that while the rupee may for some time be linked to sterling, freedom should be granted to the Indian Legislature to delink it from sterling at any opportune moment presenting itself.

He added: All that is needed is to encourage confidence in the people in regard to the stability of the rupee, and that can only be done by first strengthening the economic position of the country by devaluating it in terms of sterling and then to leave it alone to determine its own natural value in the field of international finance.

MR. D. P. KHAITAN

Mr. D. P. Khaitan, who spoke next, drew a vivid picture of the plight of the agriculturists who constitute the bulk

of Indian population and attributed the present conditions to the maintenance of 18d. ratio and the unsound currency and financial policy of the Government.

Remarking about the presence of a large number of ladies at the meeting Mr. Khaitan said that he was glad that ladies had begun to interest themselves in the currency question, which was no longer a question for academic discussion but a live issue with which everybody in the land was concerned. (Cheers.)

"The condition of the country as we observe to-day," he said, "demands that something should be done to prevent the existing misery, so that the people of this country may live and not only exist. It is the agriculturist who is hit hardest by the existing currency system. The prices of agricultural commodities have fallen so low that the agriculturist cannot even buy his bare necessities of life. What little hoarded wealth they had in the shape of gold and silver, the agriculturists were now selling in order to keep their body and soul together.

The agricultural crops of Bengal for the decade 1920-30 were valued annually at Rs. 72 crores, out of which the agriculturists had to pay Rs. 28 crores for revenue, cess or interest. Thus they were left with Rs. 44 crores. In the year 1930-31 the harvest value fell to Rs. 32 crores. After deducting the Rs. 28 crores, only Rs. 4 crores were left with them. The agriculturists' purchasing power in Bengal had thus been considerably reduced. Such a state of affairs, if not worse, prevailed in other provinces. In the Punjab the value of agricultural produce had decreased from Rs. 9 crores to Rs. 4 crores.

Devaluation of the rupee, he said, was the only remedy to adjust and increase commodity prices and relieve the existing economic distress in the country.

"It is un to us," he continued, "to make this demand felt and press upon the Government to alter the existing currency policy. Our demand from the Government

should be that we must live, we must be allowed to live, and not merely exist; we cannot afford to starve like rats." (Applause.)

Concluding, he appealed to all to make an united effort, and agitate for the reversal of the existing policy of the Government, which is suicidal to the nation.

LALA RAM SARAN DASS' SPEECH

Rai Bahadur Lala Ram Saran Dass tackled the ratio controversy in a convincing manner and was of opinion that the Government of India had always been trying to appreciate the value of the rupee. Tracing the history of the ratio problem, he said that it was in 1920 that the Government had raised the value of the rupee to 2s. gold. It was a dead letter and never worked. But it was responsible for the loss of crores of rupees.

Continuing he said that in 1927 in the face of great opposition they introduced 1s. 8d. ratio. The Finance Member, he said, had declared that it would bring heaven upon earth for India, but time has shown the disasters brought about by the exchange ratio upon millions in the country.

Criticising the Ottawa Conference decisions, he remarked that the Committee on Monetary and Financial questions set up by the Conference had declared that it was in the best interests of all governments that there should be a rise in the existing price-level. The Government of India, which was a party to the Conference, he said, was sitting quiet and had done nothing to implement the decisions of the Conference.

Referring to the protection to the textile industry, he made the suggestion that it should be given on the sliding scale, according to the depreciation of the yen. He was of opinion that if rupee was devalued, the question of giving protection to the textile industry would not arise at all.

He described harrowing tales of the peasantry in the Punjab and said that he knew of instances, where the peasants had sold off their daughters to pay up their land revenue. He made a vigorous plea for a rise in the existing price level and held that it could be easily done by devaluing the rupee in terms of sterling.

Alluding to the Reserve Bank discussions, he said that the Finance Member had made a vague statement, but it did not clarify issues. He declared that if the control of Indian finance was to be transferred to the British Parliament, it was better to have no Reserve Bank at all.

MR. A. D. SHROFF

Mr. A. D. Shroff said that the ratio question affected the vital interests of each and every individual in the country. He held that the value of the money was its purchasing power and its value was a matter of importance at every moment. He derided the idea that the increased purchasing power had conferred any benefit upon the country and said that the producer of primary commodities was adversely affected by it.

He described the exchange policy pursued by the Government of India as "pig-headed" and maintained that by higher ratio the Government had frittered away the gold resources of the country. He remarked that Sir Basil Blackett had employed his talents not to confer any benefits upon the people of this country, but to impoverish the country and the legacy left behind was leading the country into disaster. He asked the audience to act as propagandists and explain to the people that the currency policy of the Government was working untold disasters in the country. "If we stand united they dare not resist our demands," he concluded.

MR. C. S. RANGASWAMI

Mr. C. S. Rangaswami described how America was attempting to put her house in order by raising the existing

price level, and it was being done by the depreciation of the dollar. "Why should India be denied freedom to depreciate her currency?" he asked.

Replying to the criticism that India should not change its currency policy, when the whole world was in a chaos, he said that all hopes of reaching international agreement had been shattered after the World Economic Conference.

Mr. Hussain Imam in the course of his speech said that the currency question did not concern the experts, but the masses. He made a passing reference to the speeches delivered at the meeting and remarked that Rai Bahadur Lala Ram Saran Das had spoken with conviction and had drawn admiration from all. He remarked that the English Government were experts at manipulation and the ratio question was a question of life and death as they had exhausted all resources and nobody could predict how long they could exist.

Concluding he declared that it was impossible to accept reforms under the sword of 18d. ratio and it was the essence of the contract in the Reserve Bank Bill and if the Legislatures passed the Bill into law, they would be betraying the interests of the country.

SECOND MEETING

The second meeting was held on Wednesday, the 8th November, 1933, under the presidentship of Rai Bahadur P. Mukherji at the Hindu College Hall. The second meeting was more successful than the first not only due to the eminence of the speakers but the keen interest which the public evinced in the subject.

Rao Bahadur P. Mukherji, who presided, in the course of his preliminary remarks said that if the finance of the country was handled wisely, the interests of the agriculture, trade and industry would be promoted and

thereby the prosperity of the country established, but when finance was badly handled chaotic conditions would come about, in which it would be difficult for those interested in industry, trade, commerce and agriculture to carry on.

It was for making the Government wisely handle finance that the Currency League was started. He criticised the financial policy of the Government during the last 50 years.

SARDAR SANT SINGH

Sardar Sant Singh, M.L.A., said that nobody could deny that agriculture had been ruined by the 1/6 ratio, and in turn trade, commerce and industry had suffered. Why then, he asked, was the Government unwilling to devalue currency? Was it because it was in the interests of England not to do so? (A voice: It is.)

MR. RAMSAY SCOTT

Mr. Ramsay Scott, M.L.A., said: In 1914, before the War, exchanges all over the world were stationary and the English pound was worth a pound in Australia and New Zealand, 15 rupees in India and 4.866 dollars in America and Canada and 25.22 francs in France. After the War, France depreciated her franc to 1/5 of its value; in 1931, England's going off the Gold Standard depreciated her £1 by 33 1/3 per cent.

The United States has all along advocated remaining on the Gold Standard, but has just found it necessary to depreciate the dollar more than the pound, and Canada has, of course, followed suit.

The New Zealand and the Australian pounds have depreciated by 25 per cent. on sterling, while the rupee has been appreciated 12½ per cent. on sterling. The effect of all these changes is that the Australian and the New Zealand currencies may be said to have depreciated by

50 per cent. and the English, the Canadian and the United States by 33 1/3 per cent.

If India were to go back to the old ratio of 1s. 4d., she would be on par with America, Canada and England, but still at a disadvantage as compared with Australia and New Zealand.

It is very significant that all these agricultural countries have found it necessary to depreciate their currencies to stimulate exports.

In the last few years, India's exports have been dwindling, and if it had not been for the fortuitous exports of gold, which has become a commodity, there would have been a tremendous adverse trade balance, which would have meant that an 18 penny exchange would have been too expensive and impossible to maintain.

If gold exports were to stop or even fall off, India would be in the soup.

Have you heard the story of the Aberdeen Jew, who, having somehow managed to get an overdraft, was sent for by the Bank Manager? After staving off the evil day for some time, he finally came to the Bank Manager, who questioned him about the repayment of the overdraft. The Jew's reply was, "Sir, have you ever been in the soup business?" "No," said the Manager, "why do you ask?" "Well you are now," said the Jew.

And if gold exports stopped, I am afraid, Sir George Schuster would also be in the soup business.

Our chief object is to increase the price of agricultural produce, and the only known way is to depreciate exchange in order to encourage exports, for if at 1s. 6d. exchange you sell a maund of produce in England the ryot gets a rupee in India, but if exchange is 1s. 4d. you can sell the same maund in England for 1s. 4d. and still get a rupee in India. You will naturally set your price at 1s. 4d. than at 1s. 6d. per maund. Prices would rise in this country.

Supposing, each agriculturist received only a rupee more each in the year, that would mean 275 million rupees or 27½ crores more to spend, and the purchasing power of the country would increase by 27½ crores.

The position of the agriculturist is so bad that, as a speaker said the other day, the ryot has to be content with only a shirt and a dhoti. If the present state of affairs continues, he will have to give up the shirt. Times are so bad that it is almost impossible for them to get worse. What is the use of sticking in the same old rut? Let us make some attempt to get out. Let us make the experiment and try a lower ratio.

It is now up to you all, ladies and gentlemen, to get a move on, and tell the story to your relations, brothers, sisters, uncles and aunts, and by your united voice, to urge the Government to do what you consider in the best interests of the country.

There is just one point more, and that is that the rupee should be linked to sterling. The Government of India has such large sterling commitments that it would be an embarrassment to the Government of India if it did not know what its exact commitments were for Budget purposes.

MR. G. D. BIRLA

Mr. G. D. Birla said that the 1/6 ratio was a cancer of a malignant type, which worsened the condition of the patient as time passed. Three efforts to appreciate currency, towards the end of the last century, after the War and in 1926, brought about considerable loss to the country. Each time, unemployment increased, wages went down and agriculturists were ruined, as the price of their produce was lowered. As the agriculturist was the greatest producer and debtor in this country, he suffered the most from a higher exchange.

Unrest in India, Mr. Birla added, was principally economic. It could partly be allayed if equilibrium were

restored, between the agriculturists income and expenditure. This could best be done by means of inflation.

Continuing he said that India remitted colossal amounts to England. If India's exports diminished, there would be no course left but to export gold, and when that was exhausted to default. The speaker warned England not to create a situation when India would be compelled to default.

Mr. Birla concluded: "If America wants prosperity, we want it more; we must make it plain to the Government that unless commodity prices rise in this country by 50 per cent. by the American method of inflation, India must go to dogs. If the Government don't do it, circumstances would compel them to do it." (Hear, hear).

DR. ZIA-UD-DIN

Doctor Zia-ud-Din Ahmad, M.L.A., emphasised that along with the Reserve Bank Bill, the Assembly would decide the exchange ratio question. Otherwise, there was no need for establishing a Reserve Bank.

Mr. M. C. Sharma said that the lowering of the ratio would cause hardship to salaried men, and it should not be resorted to without a simultaneous increase in the salaries of wage-earners.

The Hon'ble Mr. Hussain Imam said that devaluation would automatically be followed by increase in wages.

Mr. C. S. Rangaswami said devaluation was the best method of lessening the burden of indebtedness of the agriculturists, as thereby their capital would be increased.

CURRENCY LEAGUE OF INDIA

BULLETIN NO. 8.

Proceedings of a public meeting held under the auspices of the Punjab Branch of the Currency League of India, on the 3rd November 1933.

Views of Sir Montague D. P. Webb C. I. E., C. B.E. and Sir P. S. Siwaswami Iyer.

**JEHANGIR WADIA BUILDING,
ESPLANADE ROAD, FORT,
BOMBAY.**

CURRENCY LEAGUE OF INDIA

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2. To educate and organise public opinion with a view to opposing the continuation of the 18d. sterling ratio as is sought to be done through the Reserve Bank Bill; and to bring about an immediate devaluation of the rupee.
3. To do all other things for the promotion of the above Objects.

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MR. JAMAL MAHOMED SAIB,
LALA SHRI RAM,
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MR. KASTURBHAI LALBHAI,
HON. RAI BAHADUR LALA RAMSARANDAS C.I.E.
LALA HARKISHANLAL,
MAJOR VAN RENAN,

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MR. J. K. MEHTA,

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The following is the list of office-bearers of the Punjab
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VICE-PRESIDENT:-

K. B. SARDAR HABIB ULLAH KHAN,
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S. SAPURAN SINGH CHAWLA,
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MR. G. S. SALARIYA,

HONY. SECRETARY

MR. P. S. SODHBANS,

Currency League of India.

BULLETIN No. 8.

The Punjab Branch of the Currency League of India, which was established in Lahore recently, organised its first public meeting tonight at the Y.M.C.A. Hall when, before a select gathering, Major Vanrenen, who was invited by the Currency League, spoke on the "Currency and Ratio Question."

LALA HARKISHAN LAL'S SPEECH.

Lala Harkishan Lal, who presided over the meeting, in his introductory remarks said that he did not know whether many people realised that the subject with which they were concerned that night was of vital importance to the agricultural progress of their country. He was glad to inform the audience that Major Vanrenen was fully conversant with the subject and understood thoroughly the agricultural situation and problems of this country and what effect ratio had on agriculture. Major Vanrenen, he said, was a big Zemindar in the Montgomery district and in Sind and the linking of the rupee, therefore, affected him (Major Vanrenen) as it affected every other Zemindar. He also knew the export side of agriculture from personal experience. As an Englishman, Lala Harkishan Lal thought, he (Major Vanrenen) had really to follow his conscience in this matter and not the policy of Englishmen (Major Vanrenen at this stage interrupting said:—I am a Britisher).

Lala Harkishan Lal added, that 95 per cent of the population of India lived in villages and the people in villages, whether directly or indirectly, were connected with agriculture. It was the interest of all these people which Major Vanrenen represented, and he was, therefore, best qualified to discuss the subject before them.

MAJOR VANRENEN'S SPEECH.

Major Vanrenen then speaking on the Currency and Ratio question then spoke as under:—

"I have been allowed the privilege to speak this evening on behalf of agricultural interests. The depression has caused most people in this urban-minded world to realise that the basic industry of the world is agriculture. That as not sufficiently realised before. Commerce, shipping, and all other industries depend fundamentally on the prosperity of agriculture. In India, certainly, the prosperity of all classes is dependent, directly or indirectly, on the cultivator, and any policy that affects him adversely, affects everyone else. As Lord Linlithgow, Chairman of the Royal Agricultural Commission said: "Raise the purchasing power of the *ryot*, and help him to raise himself out of his present terribly depressed condition, and in one stroke you will give to industry, to manufacture, and to commerce, an extended field for service, and so for legitimate gain." The Royal Agricultural Commission's investigation took place in 1926-27. The purpose of the Commission was to make recommendations for the improvement of agriculture in India, and the promotion of the welfare and prosperity of the rural population. The Commission had not completed their investigation, when in March 1927 the Government of India forced through the Assembly the Currency Bill. That Bill was carried by only three votes in spite of the greatest official exertions. A large majority of the elected members voted against it. They numbered 65, and the elected members for the Bill numbered only 28. Most of the elected members who voted for the Bill have since realised their mistake.

Many have confessed that not knowing anything about the matter they thought it best to vote with the Government officials. Government officials had done a lot of lobbying. Government, instead of with one stroke raising the purchasing power of the *Ryot*, did, the reverse. With one stroke, by raising the rupee exchange from $1/4$ to $1/6$, they increased the *Ryot's* indebtedness by $12\frac{1}{2}$ per cent and decreased the value of his produce by $12\frac{1}{2}$ per cent. There was much spacious propaganda in the Press that the higher exchange ratio would make no difference to producers in India. Values would adjust themselves. What you lost on the *swings* you would gain on the *roundabouts*. You would get less for your produce, but you would gain by lower prices of imported goods. Government stultified that theory altogether by increasing import duties all round. The value of produce was reduced by $12\frac{1}{2}$ per cent and the cost of imported goods

has been increased by 30 to 75 per cent. So the cultivator has lost both ways. India was the only country in the world that was forced to face the depression with an appreciated currency. Since the rupee exchange was raised in March 1927, we have read much in the Press that any reversal of that measure would be most damaging.

We have heard no more of that theory since it suited Great Britain to go off the gold standard. Great Britain has depreciated her currency by 40 per cent. and far from that having injured her producers it has benefited them.

Nearly every country in the world has learnt the same lesson.

EXCHANGE RATIO.

Continuing Major Vanrenea said: "The present exchange ratio has proved disastrous to agrarian India. I speak with some passion, because I live among the agricultural community, and I can assure you, if the community was in a terribly depressed condition in 1926-27, when the Agricultural Commission toured the country, the community is in a far worse condition today. The agricultural community is so ruined that they have no trinkets nor anything of value left for dacoits to steal. That fact has been stated in the last annual report of the Police Department. In contrast to India, Australia and New Zealand in the crisis have been free to depreciate their currencies. This they have done by 25 per cent. and since Great Britain abandoned the gold standard. In comparison with the time when the rupee ratio was $1/4$ the Australian farmer enjoys an advantage over the Indian cultivator of $37-1/2$ per cent in the exchange factor alone. The Australian farmer has been saved by the policy of his Government from the same degree of distress as the Indian cultivator has suffered in the depression. In spite of the depression Australia has been able to increase the volume of her agricultural exports by 33 per cent. Whereas India's agricultural exports have diminished immensely and continue to diminish.

AUSTRALIAN WHEAT IN INDIA.

In spite of the India Wheat Import Bill, Australia can still land cargoes of wheat in India, although there is already a large surplus of

wheat in the country, and there is likely to be a far larger surplus from the crop now being sown, in consequence of the favourable monsoon. The only thing that can save the agricultural masses, and particularly those in this the Key Province of India, politically is that further gold exports should be prohibited, or heavily taxed and that the rupee should be allowed to find its own level.

GOLD EXPORT.

Proceeding Major Vanrenen said: "The exports of gold have prevented the rupee from falling to a level that would have induced the resumption of India's normal exports, which consisted of agricultural produce. Owing to the rupee being linked to sterling there is a great danger to India as an agricultural country from the threatened return, on the part of Great Britain, to the gold standard. The gold standard was invented by great financiers more than a century ago in order to further enrich themselves and to get the world in their power. They invented the gold standard in order to obtain the position to manipulate slumps and booms. When prices of ordinary commodities rise to their heights which causes the value of gold to depreciate in terms of commodities those financiers sell property and commodities heavily in order to restore the value of their gold, and invest the proceeds from their sales of commodities and property in further purchases of gold, because they know that the prices in general will fall further owing to the impetus. Their sales of commodities and property encourages or compels every one else to sell and this intensifies the slumps. When prices in general have fallen to the lowest limit possible and the value of gold in terms of commodities has reached its maximum, they sell much of their gold, and begin buying property and commodities, and this causes everyone with any money or credit left after the slump, to follow suit. This is the cause of the booms.

GOLD STANDARD.

"Since the invention of the gold standard, there has been a long series of violent slumps and booms. For this reason I am very adverse to any gold standard. The gold standard gives too much power to a few, and is the ruin to the vast majority. The only fair basis of currency is the world's volume of production. In order to obtain stability and prevent ruin, there must be sufficient currency to pay for all the

production. As for that purpose there is not sufficient currency in the world, and especially in India, we have the existing paradox of starvation in the midst of plenty. The gold standard is no longer suitable, unless all currencies are to be depreciated much below their present level. But as I have indicated, the chief objection to a gold standard is that it gives much too much power to a few, and enables those few to keep the world in their toils. Since it seems that Great Britain proposes to revert to a gold standard, it is all the more reason, apart from the very dissimilar conditions of Great Britain and India, that the rupee should be de-linked from sterling, and that the rupee should be allowed to find its own level.

CURRENCY BE BASED ON PRODUCTION.

Concluding, Major Vanrenen said :—

"India's currency should be based on her productiveness. If the link with sterling and the 1/6 exchange ratio are maintained and the gold standard restored, India's productiveness will decrease. Either the starvation of the people will result or the ruin of Government. Either the people will have to sell more of their produce than they can share to pay taxes, or Government will have to do without revenue. As I have said, India's currency should be based on her production. We have all heard of the depreciation of the Japanese Yen. The Japanese have not in fact depreciated their currency, but have merely adopted the only reasonable currency basis, which is her productive capacity. Great Britain has not in fact departed from the gold standard, but has merely depreciated sterling in relation to the value of gold, and for months past has kept sterling at the same level in relation to gold. That level does not suit India, as is quite evident from the extreme distress of India's agriculturists. It is for this reason that I would urge all who have any pity for the Indian cultivator to press, not for the restoration of previous exchange ratio, but for several other measures. The measures are:—Firstly, the export of gold should be prohibited, or heavily taxed in order to bring in revenue to Government which might enable Government to reduce the prohibitively high railway tariff rates. Secondly, the rupee should then be de-linked from sterling and allowed to find its own level. Thirdly, thence forward the basis

of currency should be according to the measure of the country's production. This also will enable India's agricultural hundreds of millions to be freed from their slavery, of which their indebtedness is the cause. The extreme indebtedness, poverty, and hopelessness of India's millions are not of their own fault, but are due to a wrong financial system, and also I may add, to an expensive system of justice and a wrongly framed law. The law of contract is one sided, and gives no protection to the poor and ignorant.

"Without the measures I have advocated, I am convinced that the prosperity of India cannot be restored, the buying power of her hundreds of millions cannot be restored but must diminish, the rural masses can never become educated, the conditions in which they live cannot be improved, and the tens of thousands of educated men in the cities and towns will continue to lack employment."

(Applause).

RESOLUTION.

After Major Vanrenen's speech Sardar Prem Singh Sodhbans, Secretary of the Punjab Branch of the Currency League moved the following resolution, which, being supported by Khan Bahadur Sardar Habibullah, was carried unanimously :—

"Whereas the linking of the rupee to sterling has proved detrimental to the interests of India; and whereas the action of the Government of India as currency authority in maintaining the exchange value of the rupee at 18d. has had disastrous effects on the agricultural and industrial interests of the country and has resulted in the depletion of the gold assets in the currency reserves;

This meeting is of opinion that the Governor-General-in-Council should immediately take such steps as are necessary to delink the rupee from sterling to allow the rupee to find its own level, and to put an embargo on the export of gold."

CHAIRMAN'S CONCLUDING REMARKS.

The chairman, Lala Harkishna Lal, in his concluding remarks said he was very glad that they had made a start. The currency and ratio

question, he observed, was a very difficult question. They were passing through a calamity. With regard to the part of currency which touched their foreign trade they had not, he thought, realised what it meant. India, he said, exported goods to a very large extent and all that they bought had to be paid for by their export. Almost all of their exports were in the nature [of agricultural produce. Before 1927, said Lala Harkishan Lal, their balance of trade was nearly 100 crores a year, which meant their prosperity, although this amount was also small for a country with a population of 35 crores. But from 1927 to this day, said Lala Harkishan Lal with regret, the trade balance had been reduced to 7 crores. Their exports and imports were nearly equal today. Their national reserve used to come out of that 100 crores, but now the 7 crores were also non-existing according to many learned statisticians. That was how, said Lala Harkishan Lal, they were suffering.

In the end Lala Harkishan Lal said that their first step here should be to rouse and cultivate public opinion and to understand the various aspects of the currency and ratio problem. But after all even when they understood it, unless they were prepared to take some action or to agitate or to start some kind of organisation, the results they desired could not be achieved. He hoped that the youngmen, who had come to the meeting, would try to understand the problem and discuss it with whomsoever they met and thus carry on an educative propaganda. He was asking them to do all this because, he said, he was deeply interested in the problem, being the Vice-President of the Currency League of India and the President of its Punjab Branch. He then thanked Major Venrenen for his very instructive, clear, and lucid speech on the subject.

With a vote of thanks to the Chair the meeting dispersed.

Views of Sir Montagu de P. Webb, C. I. E., C. B. E.,
and Sir P. S. Sivaswami Aiyer.

"Regarded from the standpoint of India and the East, many of the nations of the West appear to have taken leave of their senses. The spectacle of the armed, and unarmed, peoples of continental Europe marching and countermarching, brandishing their swords in each other's faces, and loudly proclaiming that their one aim and policy is PEACE the spectacle of President Roosevelt and his "Brain Trust" declaring that they will, by executive orders, raise prices all round without manufacturing any additional money, and will then keep prices absolutely stable to the higher level, both feats, of course, economically impossible, and, overshadowing all, the spectacle of tens of millions of poor people, workless and half-starving in both continents, whilst the fields workshops of the world abound with a superfluity of good things, these spectacles must surely cause the gods to weep at the follies of present-day man.

But there is no reason why we, in India, on this side of the world, should meekly acquiesce in the imposition of the follies of the West on the peace-loving and industrious peoples of India. There is no wild brandishing of arms in the interests of peace in India. Nor have Government in India taken in hand the restoration of prices to the levels of five years ago, by executive orders, or in any other way. Indeed, Government have, in practice, done nothing, but have waited helplessly for executive wisdom from the West. And they have waited in vain. Yet, in this vital problem of restoring rupee prices to the 1928/9 level, there is no insuperable difficulty. More rupees must be used actively for purchasing by the people, not extracted from the people by remorseless taxation, and, prices having been forced down, treated as "surplus" coins, melted, and sold for what they will fetch, at a heavy loss to the Indian taxpayer. That policy is sheer unadulterated folly.

Let us lay down a prosperity programme, and then unite to carry it out. The first two steps towards the restoration of the 1928/9 price level are (1) the restoration of the rupee to 1s. 4d. (at which figure it stood for practically twenty years), as a prelimi-

nary to (2) the re-opening of India's Mints to the free, coinage of full, legal tender rupees. India grew and flourished amazingly with open Mints. And she will flourish again under the stimulating influence of free silver, just as the whole world was revived and induced to flourish last century by aid of the fertilising flow of gold from California, from Australia, and, later, from South Africa. Let India at once approach the United States of America (who would benefit greatly from re-opened Silver Mints), and all other silver-producing and silver-using countries, with the object of rehabilitating forthwith, as money, the precious white metal, the restorative properties of which are, for the moment, hidden by a combination of blind ignorance and stubborn pride from most of the great money dealers of the West.

Every expert authority is agreed that absolute stability of both (a) *internal* price levels, and (b) *external* monetary exchanges, is an economic impossibility. Every economic authority is also agreed that, as some variation of one or the other is unavoidable, it is better in the interests of the country as a whole, especially of an agricultural country, that the chief efforts of Government should be directed to maintain the stability of the *internal* price level, rather than of the foreign exchanges. And yet, the economic madness which has overtaken the West, and which the India Office has forcibly imposed on the the Government of India, has been, and still is, directed *in exactly the opposite direction*!! India has been forced to accept a wholly unjustifiable 1s. 6d. rupee, whilst her internal price level has been allowed to drop fifty per cent. to the partial ruin of agriculture and industry, and the very great inconvenience of railways and Port Trusts, local Bodies and Governments, and of the Government of India itself. It is high time that sanity and fairplay be re-established in India. The passage of the Reserve Bank Bill is the opportunity. Clauses 40 and 41 of that Bill, contemplate the riveting of India's good silver rupee to England's uncertain paper pound at approximately 1sh. 6d. per rupee, at which rate the Bank will be compelled to buy and sell paper pounds *in unlimited quantities*. These clauses must not be allowed to become law. The 1s. 4d. rate must be re-established as a half-way house to re-opened Silver Mints, in agreement with the U. S. A. and other countries.

Economic theorists will assure us that the business of the world consists essentially of exchanges of goods; and that any alteration in the sterling value of the rupee cannot benefit India *in the long run* (*i. e. after all the related adjustment, of prices, wages, overhead charges etc., have been finally made.*) No doubt. But the "long run" may run over a generation and in the meantime, whilst all the many adjustments are gradually taking place, India stands to be scored off in many ways. That is why New Zealand last year deliberately depreciated its gold pound. That is why several other countries have acted similarly. That is why Great Britain makes no attempt to change the *thirty-five per cent depreciation* at which the pound sterling now stands in relation to the French franc. No. Pending the re-opening of the Indian Mints, India must fight for a return to her 1s 4d rupee."

Sir Montagu de P. Webb, C.I.E., C.B.E.,

* *

"When the report of the Royal Commission on Indian Currency and Finance was published in 1926, I was of opinion that the weight of argument was in favour of the 18 pence ratio. I thought that prices and wages were in course of being adjusted to the 18 pence ratio, that the reduction of the ratio to 16 pence would involve a disturbance of existing conditions and that it would be undesirable to prolong the period of non-adjustment by a change in the ratio. I must confess that I was mistaken in my anticipations. There has been a tremendous slump in the prices of commodities, and especially in the wholesale prices of primary commodities. It was stated by the Macmillan Committee that within fifteen months from June 1929, there was a fall of 20% in wholesale prices in British India. I believe there has been an even larger and more disastrous slide-down of prices since the date of that report. This may be due to a considerable extent to world-wide causes and to the general economic depression and not altogether to causes peculiar to the currency policy of India. It is reasonable to infer that the adjustment in prices and wages to the 18 pence ratio which was anticipated by the Currency Commission have not taken place and that there would be no serious disturbance of economic conditions by altering the ratio to the lower level of 16 pence. It is the

opinion of many that the stabilisation of the currency in England in 1925 was premature and it seems to me that the 18 pence ratio was adopted in India in 1927 when the time was not ripe for the stabilisation of the exchange.

Most countries in the world have now gone off the gold standard and the object of every country has been to raise the level of internal prices, if not also of international prices. It has been claimed that the policy of depreciation of the currency adopted by the countries which have gone off the gold standard has been successful in stimulating exports. The desire of almost every country now to expand its exports and restrict its imports is in many cases the result of a fallacy as to the possibility of all countries having a surplus of exports over imports. While it would be neither possible nor advisable for every country to aim at a surplus of exports, the position of debtor countries like India which are burdened with external financial obligations is different. The maintenance of a surplus of exports of commodities over imports is a necessity in the case of India. The reduction of the ratio to 16 pence would have the effect of stimulating exports from India and would also raise the level of internal prices. While there are many other aspects of the question to be considered, an immediate rise in the level of prices within reasonable limits is a matter of vital importance.

The proposal in the Reserve Bank Bill to impose restrictions upon the power of the Indian legislature to alter the ratio by requiring the previous consent of the Governor General at his discretion is one which must be strongly condemned. We must insist upon the right to manage our own currency and finance in the interests of India.

The question of linking Indian currency to the British sterling is one upon which it is not possible to express an opinion with confidence. But here also I should not like the decision of the reformed Indian legislature to be fettered in any way.

It seems to me also that the Government of India should be pressed to reconsider its policy of allowing the free export of gold from India. Almost every country in the world is trying to accumulate its stock of gold and there is no reason why India also should not be allowed to reserve its stock of gold. In the budget speech of

the Finance Minister in February last, he justified the policy of the Government in not interfering with the export of gold. His explanation appeared to me to be satisfactory, but, as he himself admitted, the process of drawing on reserves cannot be continued indefinitely. It seems necessary that the Government should take the legislature into confidence and re-examine the position."

Sir. P. S. Sivaswamy Aiyer,

K. C. S. I., C. I. E.

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An interesting lecture, the subject of which was the Reserve Bank for India, was delivered by Dr. L. C. Jain, Reader of Economics in the Punjab University, under the Presidentship of Lieutenant Sodhbans, at Lahore on the 3rd. of November.

Dr. Jain in the course of his lecture dwelt on the different features of the Blackett of 1928 and the present Bill of 1933 and the achievements of the Reserve Bank Committee in London and compared these with the features of other Central Banks of the world which were in existence today.

He denounced the 18d ratio in the following terms:—
 "The exchange ratio should not be linked to the sterling and it should be brought down lower than 18d."

CURRENCY LEAGUE OF INDIA

BULLETIN No. 9

Proceedings of a public meeting of the citizens of Madras, held at the Gokhale Hall, George Town, on Tuesday the 7th November 1933 under the Presidentship of Mr. Jamal Mahomed Saib.

**JEHANGIR WADIA BUILDING
ESPLANADE ROAD, FORT,
BOMBAY.**

CURRENCY LEAGUE OF INDIA

OBJECTS

1. To encourage and provide facilities for a systematic and impartial study of questions relating to currency, so that a currency policy best suited to the interests of the country may be evolved.
2. To educate and organise public opinion with a view to opposing the continuation of the 18d. sterling ratio as is sought to be done through the Reserve Bank Bill; and to bring about an immediate devaluation of the rupee.
3. To do all other things for the promotion of the above objects.

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Currency League of India.

BULLETIN No. 9

Proceedings of a Public Meeting of the citizens of Madras held at the Gokhale Hall, George Town, on Tuesday the 7th November, 1933, under the Presidentship Mr. Jamal Mahomed Saib.

A well attended public meeting was held last evening at the Gokhale Hall, George Town, under the auspices of the Southern India Chamber of Commerce at which resolutions were passed protesting against the proposals made in the Reserve Bank Bill to perpetuate the iniquitous and unnatural ratio and authorising the chairman to take steps to form a Currency League for Madras. Mr. Jamal Mahomed Saib presided.

The Honorary Secretary first read letters from Mr. A. Rangaswami Iyengar and Mr. J. K. Mehta, sympathising with the objects of the meeting and the formation of a Currency League.

Mr. Jamal Mahomed, in the course of his introductory remarks, said that they had gathered to voice forth their opinions and feelings once more on a subject which deeply affected the economic life of the country, that is, on the exchange and currency policy of the Government of India. People who had got the country's interest at heart had all along been pointing out how injurious the 18d. ratio was to the vital interests of the country. But the Government had not heeded so far. Not only that; but now they were seeking to permanently legalise through the Reserve Bank Bill the Sterling-Rupce exchange and to perpetuate the unwanted ratio of 18d. sterling. The country had been forced so far to make immense sacrifices for this ratio and if the Government was allowed to perpetuate the same ratio, the economic position and life of the country would still more be seriously crippled. There were strong indications that if the present exchange policy and the ratio were not altered now to the satisfaction of the people and the interests

of the country and if the Reserve Bank Bill was allowed to pass as it was, it would not be easy to retrieve the position at any rate in the near future. Further, the country had had enough of the ills of the present appreciated rupee and it was now more than high time that it was relieved of these ills.

After referring to the steps taken by the Government to maintain the unnatural and artificial ratio, Mr. Jamal Mahomed said :

“The very means of maintaining this ratio subjected the country to enormous sacrifices. The gold resources of this poor country were frittered away ; the contraction of currency affected the industries for the proper development of which sufficient money would not be available even under ordinary conditions of this country and the same contraction had an adverse effect on the commodity prices as well. Apart from these, the present high ratio has, by itself proved detrimental to the agriculture, industry and commerce of the country. The vast bulk of the population is agricultural and this is the section that has been affected most. This higher rate of exchange has cut down the prices of the vast quantities of the produce of the agriculturists, of which the exports form only a very small percentage. When agriculturists were thus deprived of a good portion of the value of their produce, (which portion was in most cases larger than their margin of profit) their purchasing power was reduced ; their purchasing power means practically the purchasing power of the whole country, as they form more than three-fourths of the population. When their purchasing power is undermined, the industries of the country and also the foreign imports must needs be affected, as they have been. For, how could they now buy the imported articles or even our own manufactured articles to the same extent as they would, if they were allowed to have the full value of their own produce. This price-cutting ratio has naturally discouraged production and the exports are much diminished. At last, the country being unable to bear the tremendous strain of depression which has been augmented by the exchange policy of the Government, the hemorrhage of gold exports has set in.

I don't and can't say that the present depression is all due to this ratio. But this ratio has certainly intensified and aggravated the evil

effects of the depression in this country. Even before the present depression showed itself in other parts of the world, our high rate of exchange began gradually to undermine the economic life of this country; and when the depression burst forth, it was only natural that it should be felt much more keenly here in this country. If the present wrong ratio is righted, as it must be, the country will surely have a solid and substantial amount of relief from its present afflicting distress. What we, and for that matter the whole world want now is the rise of commodity prices for alleviating depression. Lowering the present inflated value of the rupee will achieve this supremely needed end to a great extent. Important and highly developed countries like Great Britain, United States of America and Japan are doing this very thing now. For putting up prices and for encouraging their foreign trade, they have depreciated their currencies. In the face of these striking examples, it is most deplorable that the Government of India are sitting tight, when the whole country is being devitalised, on this ratio which was inimical to the country's interests even during ordinary non-depression times. In the supreme interests of this country, the rupee must be devalued at say 14d. or 15d. in terms of the present comparative values. I can't defend the sterling-link of the rupee, as no other big country is so linked to another and as India can have no part or lot with the management and manipulation of the Sterling. If they want, let the link be left alone for the present, but not surely at the present rate. It is true countries like Sweden and Norway have got their currencies linked to the Sterling. But they did not of course do so at the dictation of Great Britain nor at rates suitable to the British financial interests. If other countries have joined the sterling group, they have done so of their own accord and at rates suitable to their own conditions. Similarly, even rudimentary justice demands that our link too should be at our own choice and at a rate best suited to our country.

Government's contention that a lower ratio would mean an increase in the expenditure to the extent of few crores and so the ratio should be at 18d. rate is fundamentally incorrect. For getting this apparent saving in their expenditure, the Government have subjected the country to a loss amounting to hundreds of crores. Anyway the net gain to the Government is not even as it was represented to be.

The distressed state of agriculture, commerce and industry has seriously affected the Government revenues and any improvement in the same will naturally produce better revenues to the Government. So when looked at from that and the more correct point of view, the ratio will also be beneficial to the Government's budgetary position as well.

There is indeed a wide-spread and deep feeling of discontent and grievance amongst the people on this subject of exchange and currency. For interpreting this feeling to the Government and for impressing upon the latter that the matter can't brook any more delay and also for enabling the people to assess the surrounding and prevailing conditions at their true value and to form their opinion as to the exchange and currency policy best suited to the interests of their country, an organisation on the lines of the Currency League is a necessary feature in this province also.

I think there is much common ground between Indians and Europeans particularly on this question. Firstly, there is the sheer injustice of the case in not giving the country the right ratio demanded by its vital interests. Secondly, the Europeans would indeed recognise that even from the point of view of material advantage, it is highly desirable and necessary for all concerned that the present exchange ratio should be revised forthwith. A contented and more prosperous India with an improved purchasing power will surely be a better market with a lasting good demand. While we have to note with satisfaction that the the country's cause has been receiving the active support of a number of distinguished Europeans, I earnestly appeal to all European businessmen to join hands with Indians in getting this sore wrong promptly righted.

I just made mention of the export of gold from India. The Government have so far refused to check this hemorrhage of gold exports and ask us to believe that it is a good thing. But however much we may stretch the imagination, we cannot get such a belief. India has got no gold mines worth the name and is not a producer of gold. If she were, then the export would surely mean a good thing. But she is a buyer of gold for her social requirements. For ages and generation, she has been buying, importing gold, but now we are exporting, losing that gold that represents the accumulation of ages.

Let us take a jewellery-shop manufacturing and selling jewels. If a larger number of jewels go out of the shop, it surely denotes prosperity for the shop. On the other hand let us take a family, an old and well-to-do family; it buys ornaments for the use of its members, that is the custom. But instead of buying, we find it one day selling out jewels, then we know there is something seriously wrong with the position of the family. We know that people in this country don't sell their jewels for profiteering purposes. Gold reserves are immensely more necessary to a modern country than ornaments are to a family. India's gold resources whether they are small or large must be conserved within the country, so that she may be able to successfully face any crisis in the future. The said gold resources if they remain in India have got great potentialities for the banking and economic development of the country when people at a future date get to the habit of using less of the precious metals for ornament purposes.

In various countries of the world, there is now a keen struggle for conferring and increasing the gold resources. But ours is the only country which deliberately and without any struggle loses its gold and whose Government looks on and encourages the said loss. There may be a lull in the export, but it will start off again at the appearance of the slightest opportunity, unless a definite embargo is placed upon it. At present the danger is all the greater, as America has set about attracting to herself as much of gold as possible from the other parts of the world. Will not the Government see their way at least now to placing an embargo on the export of gold and make arrangements for buying the gold themselves? In the interests of this poor country will they not adopt the same policy as is followed by other important countries? Ladies and Gentlemen, I won't take any more of your time and shall call upon other gentlemen to speak.

Mr. Yakub Hasan moved the following resolution:

"This public meeting of the citizens of Madras wishes to record its most earnest and emphatic protest against the policy of the Government of India in continuing to allow the free export of gold while all the other civilised countries of the world are zealously conserving their gold resources and are adding to the same by all possible means, and requests

the Government to treat the question purely from the interests of this country and forthwith place an embargo on further exports."

In doing so, Mr. Yakub Hasan said that when England went off the gold standard, the price of gold rose by leaps and bounds with the result that in India people who had gold began to sell away the same. If they had a national government, that government would have acted in the manner it had done when a great crisis had arisen. There was a huge cry in the country when it was found that more than 35 crores worth of gold had been exported in three months. The Government in India did not act in the interests of the country. They knew fully well that this would help the British Government in more ways than one. The export trade in India had been dwindling down from year to year and the balance of trade was flowing out of the country. The excess of exports over imports had come down to 3 crores in 1932-1933 from 151 crores in 1924-1925. Again, the Government had been manipulating, to suit the advantages of the British traders, the exchange ratio. It might be said that it would bring more goods into India and that commerce would improve. But this import would act to the detriment of their indigenous industries. By this mass export of gold and by having the exchange ratio as high as 1/6 the country had suffered much and especially the agriculturists had suffered much. It might be stated that the people by selling gold now are making profits. This would be true if the sale money was invested in another concern. But that was not the case. The money came at a time when there was a depression, there was unemployment and there was pressure from the Government. The money was utilised for household purposes and the money had been expended and in a future depression would not be able to meet all the needs. The question of export of gold and the fixing of ratio should be settled in a manner satisfactory to all partners. The speaker urged that protest meetings should be organised throughout the country and the Government made to feel that the country was not with it. He hoped that the resolution would be supported wholeheartedly.

Mr. V. C. Rangaswami, in seconding the proposition, said efforts must be made to bring pressure on the Government and make them realise the folly and rectify the mistakes soon. The proposition had

stated that every civilised nation had been taking care not to permit its gold resources being frittered away. But the Government in India had allowed its gold to the tune of 153 millions to be spirited away from the country. They had allowed the draining away of the gold which the people had laid by for emergencies by offering gold a higher price. The economic depression had also forced them to sell the gold to meet the revenue demands and pay off their debts. The only currency known in international commerce was gold. This paper currency which had only a national value had got to be backed up by international currency. It was for that purpose they were crying hoarse that the gold resources must be conserved. When after the war England had to pay large sums in gold the British Government conserved their gold in the banks and by manipulating the exchange ratio and by reshuffling the policy ruined the country. India lost a great deal by these manipulations and in addition to that she had exported more than 53 millions worth of gold. The country was getting poorer and poorer and this process must be stopped. It was with the purpose of educating the people that they must carry on an intense campaign to bring pressure upon the Government to see that no further gold was permitted to be exported from India. They could not be issuing paper-money *ad nauseam*. Money currency was needed for improving agriculture and industries of the country and it was necessary that gold must be conserved, and that an embargo must be placed on the export. The speaker hoped that the Government would realise the gravity of the situation and relieve the people of their sufferings.

Dr. P. Varadarajulu Naidu supported the resolution and stated that as long as India was under the domination of England, India's financial interests would surely be sacrificed for the interests of Britain. Their economic salvation lay only in attaining political independence. Then only could they frame their own financial policies. The agitation had to be continued but in the mean time to relieve the agriculturists who were now suffering most, the banks should give them loans on liberal terms. He hoped that the people would realise all these and present a united front.

The resolution was then carried unanimously.

Mr. C. M. Kothari next moved :

"Whereas the action of the Government of India in linking the rupee to Sterling and in maintaining the exchange value of the Rupee at 18d. has proved seriously detrimental to the interest of India and, has had disastrous effects on the agricultural and industrial interests of the country, this public meeting of the citizens of Madras expresses its strong and emphatic protest against the proposal made in the Reserve Bank of India Bill to perpetuate the iniquitous and unnatural ratio."

The speaker traced the history of the currency policy of the Government of India since 1897 and pointed out that though several commissions and committees had been appointed to enquire into the exchange question, the Government had put into force only those recommendations that worked in favour of England. The interests of India had been sacrificed. The Government was now trying to fix the ratio at 1s. 6d. on the teeth of the opposition of the public. The ratio had demoralised their trade, the agriculturists had suffered much, their industries had practically vanished and the country was getting poorer and poorer. It was stated in some quarters that this was due to the world-wide depression. They were made to understand that by adopting the 18d. ratio India would get about 12½ per cent more in the way of imports and that consumers could get things cheaper. It was true that the imports would increase but who was to buy this imported goods ? What was the use of getting things if there were no buyers ? The purchasing power of the people, had gone very low. The ryots were not able to make both ends meet.

The speaker, continuing, said that at present, all over the world, the countries were trying to conserve gold and to have their own financial policies. But in India the rupee, was linked with the sterling. Though there were some advantages in this linking the disadvantages were many. They should be allowed to fix the ratio in the interests of the country. It was necessary therefore that they must enter their emphatic protest against fixing the ratio at 18d. and hoped that the public would carry on an agitation.

Mr. C. Abdul Hakim seconded the resolution

Mr. Ismail Sahib, in supporting the resolution, said that the ratio had affected the vital interests of the country. The speaker gave facts and figures to show that the exports were diminishing year by year and the country was tending to a state of bankruptcy. It might be stated that the world-wide depression was the sole cause of this. If that was so, the imports should have been affected equally. But that was not the case. The ratio was at the back of these things to a great extent. The purchasing power of the people has now been impaired and they were now living upon their laid-up capital and this must be stopped at all costs. The speaker then referred to the statements reported to have been made by Sir P. C. Ray in favour of the higher ratio and pointed out that the higher ratio was ruinous to the interests of the country particularly to those of agriculture and the lower natural ratio would be beneficial to agriculture, commerce and industry of the country. It was true that they want stability of their exchange but not to the detriment of the interests of the country. It had also been stated that if the ratio is changed as required by the people, their credit in the world would be lost. Other countries were fixing the ratios as they pleased and the credit of those nations was not affected. The speaker could not understand how a single change would affect the credit of India, while other countries' rates are changing from day to day and even hour to hour. The speaker hoped that as a result of the agitation carried on in the country they would soon get the ratio that is required in the interests of the country.

Mr. Sundara Bahyam and Mr. Yusuf Sait supported the resolution which was then carried unanimously.

SIR P. S. SIVASWAMI AIYAR

Sir P. S. Sivaswami Aiyar next moved the following resolution :

"This meeting strongly protests against the provisions in the new Reserve Bank of India Bill imposing restrictions upon the rights of the reformed Indian Legislature to manage the currency system of the country in the best interests of India and to determine all questions of policy connected therewith including the exchange ratio."

In moving the resolution Sir P. S. Sivaswami Aiyar said that the constitution outlined in the white paper had been subjected to much

criticism in that it did not confer any real responsibility upon the people. If any one point were needed to justify that criticism, it could be found in the many safeguards provided in the White Paper and in the new Reserve Bank Bill. It was provided that any amendment in the Act could be introduced only with the previous sanction of the Governor-General and the Secretary of State. The people should have a right to manage their own financial and currency affairs. Of course India could still be regarded as a dependency but when they were on the eve of having a great constitutional change, the object of which was to confer responsibility on the people and the legislature, it was unreasonable that one of the most vital aspects of administration should be withheld. They should agitate for getting power to manage their own financial affairs. In the new constitution, the legislature was going to be a large body composed of several sections and it was certain that it would command the confidence of the Government and it was hardly necessary that any safeguards should be provided. They wanted the right to manage their affairs and he would even say mis manage their affairs. It was only by making mistakes that any country could acquire a sense of responsibility. In the best interests of India, he hoped that the Government would not insist upon the retention of those safeguards and restrictions in the management of their currency. If that right was not conceded to them, he did not know whether the responsibility which the Government professed to confer upon the people would be worth the name.

MR. GOPALA MENON

Mr. C. Gopala Menon seconded the resolution. He pointed out that the 16d. ratio was more workable and the Government, in spite of the recommendations of several Committees and Commissions, was attempting to fix it at 18d. They ought to enter their emphatic protest against the provisions in the Reserve Bank Bill denying the right of the legislature to alter the rate.

The resolution was then adopted unanimously.

Mr. T. R. Venkatarama Sastri next moved :

"This meeting of the citizens of Madras authorises the Chairman to take necessary steps for the formation of a Currency League in Madras

which will be a permanent institution working for the attainment of national Currency and Exchange policy in the country."

In moving the resolution, Mr. Venkatarama Sastri said that he was glad that they were engaged that day in discussing a question in regard to which there was no difference of opinion. All sections and communities were agreed on that question and he would even say that Europeans carrying on trade in India were in a great measure united in this matter. Even the Government in India had on some occasions tried to be with the people but was forced by outside influence to act otherwise. It might be true that on many occasions they had carried out policies dictated to them from London without any protest whatever, but they knew that on some occasions there had been conflict between the British Government and the Government of India, though ultimately the wishes of the British Government prevailed. On a matter in which there was so much unanimity it was their duty to educate the public, to disseminate correct ideas on those problems and to get the whole country believe them. The high rate might be of advantage to only one person; the person, who like him self, bought books for reading and getting acquainted with things that were going on in the world. But if books were bought with the idea of selling the same, the purchaser would be disappointed. Only a properly balanced ratio would do justice to all interests and therefore the question of ratio was a matter of vital importance to all people. There might be some advantages in pegging the rupee to sterling but the ratio should be adjusted to the needs of the country. They could not afford to leave the matter in the hands of a few people who might be influenced by external forces and who might act against the interests of the nation. A strong public opinion ought to be created and the formation of a Currency League would be welcome at such a juncture. That League should form a branch of the All-India League since it was a matter concerning all India and the speaker hoped that the League in Madras would become a potent factor in the dissemination of knowledge on matters of currency and exchange and would be able to build up a strong public opinion.

Mr. C. Gopala Menon, in seconding the resolution, said that by forming the League it was intended to provide the public with facilities for studying the problem and he wished all success to the movement.

Mr. V. L. Sastri supported the resolution and said that he was of opinion that their salvation lay only in educating the people and the League would serve that purpose very well.

The resolution was then accepted.

The Chairman in winding up the proceedings said that he was very glad that a representative meeting of the citizens of Madras had expressed their emphatic protest against the proposals of the Government in trying to fix 18d. ratio and against restricting the powers of the new Legislature. The export of gold would lead to the ruin of the ryots in the country. They were now suffering most and they must try to save them at all costs. Commissions and Committees mostly composed of foreigners and representing the financial interests of England had done them no good. They had only done them the utmost harm. The country from all sides as with one voice had been long crying against the evils of the higher ratio and against the continuous outflow of gold. And yet, that the Government should persist in their own course was most unfortunate and deplorable. Gold prices might be better now as compared to the prices at which the ryots had acquired them but when the prices were almost daily rising, that lost its force altogether. With the limited supplies of gold available and with the keenness of all nations to acquire more and more of it, there did not seem to be the possibility of any fall in the prices of gold for some time to come but there was every likelihood of further increase in the value of the same. The most important thing now was to note that the agriculturists were in most cases not able to meet the cost of production. For that there must be a rise in the local rupee prices of commodities and which rise should at the same time not affect their foreign outlet. To achieve this end there was only one way open to them and that was to lower their exchange ratio even as Great Britain, United States of America, Japan and other well organised and highly developed countries had done to ameliorate their economic position. Interested parties talked of stability and confidence if the exchange ratio was interfered with now.

How was it they never thought of it in 1920 and 1927 when they made such radical changes in the monetary system of the country. That was a matter which had nothing to do with peace and order. And still

it was strange that even the Government of India was not entrusted with the conduct of these affairs, much less the people of the country, but somebody sitting over 6,000 miles away and directly under the influence of the financial interests of the City of London must have it as his exclusive concern.

In conclusion, the Chairman hoped that at least now the Government would see its way to meet the wishes of the people and thereby redress the grievances of the masses who were the heaviest sufferers.

* * * * *

The Secretary to the Bombay Millowners' Association has sent the following telegram to the Secretary to the Government of India, Finance Department :—

"The Committee of the Millowners' Association, Bombay, desire to draw the attention of Government to the vital necessity of taking immediate steps to improve the economic condition and purchasing capacity in the exchange value of the Rupee.

"The Committee consider that the first step should be a reduction capacity of the country by raising the rupee price-level of commodities.

"The Committee consider that the first step should be a reduction in the exchange value of the rupee. The Committee is of the opinion that the present valuation of the rupee in relation to sterling has caused an unnatural and substantial diminution in the volume of the export trade, and a depression of internal prices for raw materials, with adverse results to the purchasing power of agriculturists, to the general price level and to Government revenues and the balance of trade.

"The present ratio could not, in the Committee's view, have been maintained, except for unexpected gold exports, the continuation of which would be disadvantageous to India, whose trade balance should be maintained by the volume of her exports of commodities."

ANNOUNCEMENTS OF THE WEEK

1. A Public Meeting under the auspices of the Currency League of India, will be held at Surat on the 19th November 1933.
2. A Public Meeting under the auspices of the Currency League of India will be held at Poona on 16th November 1933.
3. A Public Meeting under the auspices of the Currency League is to be held on the 15th November at Sholapur.
4. A Public Meeting under the auspices of the Currency League will be held in Bombay at Dhru Hall Dadar on the 18th November 1933.
5. Arrangements are being made for holding Public Meeting under the auspices of the Currency League of India at Cawnpore.

CURRENCY LEAGUE OF INDIA

—: (0) :—

BULLETIN No. 10

THE RATIO QUESTION

A Statement By

MR. NALINI RANJAN SARKER.

(President, Federation of Indian Chambers of Commerce & Industry and a Member of the Executive Committee of Currency League of India)

**JEHANGIR WADIA BUILDING
ESPLANADE ROAD, FORT,
BOMBAY.**

CURRENCY LEAGUE OF INDIA

OBJECTS.

1. To encourage and provide facilities for a systematic and impartial study of questions relating to currency, so that a currency policy best suited to the interests of the country may be evolved.
2. To educate and organise public opinion with a view to opposing the continuation of the 18d. sterling ratio as is sought to be done through the Reserve Bank Bill; and to bring about an immediate devaluation of the rupee.

To do all other things for the promotion of the above objects.

OFFICE-BEARERS OF THE LEAGUE.

PRESIDENT:

SHETH MAIHURADAS VISSANJI KHIMJI.

VICE-PRESIDENTS:

MR. N. C. KELKAR,

MR. G. D. BIRLA,

MR. JAMAL MAHOMED SAIB,

LALA SHRI RAM,

MR. H. H. SAWYER,

SIR MONTAGUE DE P. WEBB, Kt., C.I.E., C.B.E.,

MR. KASTURBHAI LALBHAI,

HON'BLE RAI BAHADUR RAMSARANDAS, C.I.E.

LALA HARKISHANLAL,

MAJOR VAN RENAN.

EXECUTIVE COMMITTEE:

SIR PURSHOTAMDAS THAKURDAS, Kt., C.I.E., M.B.E.,

MR. NALINI RANJAN SARKAR,

MR. DEBI PRASAD KHAITAN,

MR. AMRITLAL OJHA,

MR. C. S. RANGASWAMI,

MR. N. M. MUZUMDAR,

SIR GOVIND B. PRADHAN,

MR. RAHIMTULLA M. CHINYOY,

MR. RAMSAY SCOTT,

LIEUT. P. S. SODHBANS,

MR. H. P. MODY.

TREASURERS:

MR. F. E. DINSHAW,

MR. S. N. POCHKHANAWALLA.

SECRETARIES:

MR. JAMNADAS M. MEHTA;

MR. CHUNLAL B. MEHTA;

PROFESSOR SOHRAB R. DAVAR,

MR. A. D. SHROFF,

MR. J. K. MEHTA.

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Currency League of India.

A Statement by

MR. NALINI RANJAN SARKAR, CALCUTTA.

The old ratio controversy is reviving in Bengal, but in a form vastly different from the controversy of 1927. My views on the question are well known. I am definitely of opinion that the rupee is over-valued and that it should have been devaluated long before in the economic interests of India. I should, however, make it clear that while holding these views, my anxiety for the lowering of the ratio has not impelled me to suggest any drastic reduction in the ratio such as to bring it down to a 90 level. Nor do I consider that it would be quite advisable for India in the present unsettled conditions of world currency systems to sever completely the link of the rupee with the Sterling. I have expressed my views on this question on some previous occasions and under ordinary circumstances I would not have considered it necessary to join the present controversy. But Acharya Sir P. C. Ray, in a statement to the press has thought it necessary to lend his support to the present exchange value of the rupee against the opinion almost unanimously expressed by the Indian Commercial Community and the country generally. He occupies a pre-eminent position in the public life of Bengal and is held in great respect; but I hope that in expressing his views in the present instance, he will not himself claim these to be more authoritative than what are unanimously held by the commercial community in India, though I fear that his views in the present case so radically opposed to those of the latter may prejudicially influence public opinion in the Province. I believe that in lending his name for the maintenance of a demonstrably over-valued rupee he has unwittingly let me hope, supported a currency and exchange policy, which in the opinion of the entire Indian commercial and industrial community has disastrously affected the economic well-being of India. I need hardly mention that this verdict of the Indian commercial interests has been accepted by the leaders of the people including Mahatma Gandhi himself.

BENGAL-BOMBAY QUESTION.

Secondly, the old Bengal-Bombay question has been dragged into the controversy investing it with an unfortunate and unsavoury significance, which is contrary to truth. To say that even in currency and exchange matters there is essential conflict between the two Provinces is to mislead the public and create bad blood just at a moment when harmony and good feeling between Provinces are most essential. It is quite a reasonable attitude that one genuinely concerned with the interest of Bengal should espouse her cause in a case of conflict. But in a general and country-wide matter like that of exchange, which equally affects us all, there is no room for assuming antagonism between provinces.

I have been requested by some of my friends—a few from Mofussil also—to issue a statement making a fuller exposition of the issues involved in the controversy. In some quarters attempts have been made so to prejudice issues by uncharitable and irrelevant assumptions that I consider it necessary to put things in their right perspective, even if the inter-Provincial considerations may be regarded as quite irrelevant to the investigation.

It is asserted that "the move for the devaluation of the rupee is being taken to give indirect protection to the Bombay millowners." The question naturally arises, why this singling out of the Bombay millowners alone? If there be any indirect protection given by devaluation, it will be shared by all millowners, be they in Bombay, Ahmedabad, Nagpur, Cawnpur, or Bengal. It will give protection not only to millowners but to all Indian manufacturers, whose products have to face foreign competition, wherever they may be situated. One could have understood the meaning of the distinction if Bombay millowners were the only parties advocating devaluation. But we all know that millowners and manufacturers all over the country, irrespective of the province they come from, have, with one voice, demanded it year after year. The Federation of Indian Chambers, consisting of varied Indian industrial and commercial interests, have passed unanimous resolutions condemning the over-valuation of the rupee. The Press and public

men have equally unanimously, and persistently, protested against it and emphasised the necessity of lowering the value of the rupee. In fact, in recent years, if there was a single economic question on which there was more or less complete unanimity in India, it was on the question of the over-valuation of the rupee.

It has also been said that "from the standpoint of Bengali industrial development, specially in the line of textile this devaluation move appears to be more sinister. Bengal is forging ahead in the matter of industrial development, but if this move succeeds, it will increase the prices of machinery considerably, and without importing which Bengal cannot do at present, and all hopes for industrial development of Bengal will be doomed for ever."

FALLACY OF ARGUMENT

One would think that, at the present time, Bengal is the only province that is buying textile machinery, for on that assumption only, could the argument have any validity. The argument further conveys the impression that Bombay purchased its textile machinery long ago when exchange was favourably high enabling importation of machinery at cheaper rates and that the mills in that province have either stopped buying machinery, or, at any rate, do not need to buy it to the same extent as mills in Bengal. Indeed, one of the supporters of the existing ratio has even gone to the extent of maliciously suggesting that devaluation is a policy that is being advocated by Bombay deliberately to check the industrial expansion of Bengal in general and the erection of cotton mills in particular. The insidious fallacy of the argument, if it be an argument at all, lies in the assumption that Bengal will be the only province that will be hit, or that Bengal will be the province that will be hit most. Let us test it in the cold light of facts. In the first place, India in general, and the Western Presidency in particular, have been advocating the devaluation of the Rupee for a pretty long time. Secondly, if the capital value of new mills is in the mind of the advocates of a high ratio, I would like to remind them that the large majority of mills in Bombay was started when the Rupee was 12s. 4d. In fact, the textile industry in Bombay was expanding even when the rupee was as low as 14d.

Even to-day, on the score of machinery purchases, if the devaluation of the Rupee to 16d. is going to be prejudicial to purchasers of machinery and builders of new mills, it will hurt Bombay more than Bengal, because the value of the annual imports of textile machinery in Bombay far exceeds that of the imports in Bengal, and was indeed ten times as great as the latter even so late as 1930-31. The following table setting forth the comparative figures for five years ending 1930-31 will be found illuminating in this regard :—

IMPORT OF TEXTILE MACHINERY.

				Bengal	Bombay
				Rs.	Rs.
1927-28	..	..	..	20,26,153	1,49,22,802
1928-29	..	..	..	23,86,493	1,66,96,875
1929-30	..	..	..	18,55,667	1,55,41,168
1930-31	..	..	..	15,48,387	1,34,85,935
1931-32	..	..	..	14,82,467	1,58,94,864
Total for 5 years	..	..	..	<u>92,93,167</u>	<u>7,65,41,644</u>

If the starting of new mills is in the mind of the people who advance this argument, it is necessary to remind them that even now more new mills are being established in the Western Presidency than in Bengal. Greater advantage has been taken of 18d. by Bombay mill-owners, than by Bengal mill-owners as should be manifest from the following figures relating to the increase in the number of mills, looms and spindles in Bengal and Bombay between 1927 and 1932.

			No. of Mills	No. of Looms	No. of Spindles
Bengal 1927	..	..	13	2,943	3,05,231
Bengal 1932	..	..	18	5,277	3,07,653
Increase	..		<u>5</u>	<u>2,334</u>	<u>2,422</u>
Bombay—1927	..		172	1,17,818	53,53,188
Bombay—1932	..		220	1,41,242	64,43,489
Increase	..		<u>48</u>	<u>23,424</u>	<u>10,90,301</u>

In the face of these facts one fails to see how Bengal will be worse hit by 1s. 4d. ratio than Bombay. The figures of mills constructed, etc. in Bengal and Bombay, prove, if anything, that if a higher ratio is good for the textile industry, it should be more so for Bombay than for Bengal and conversely that no prejudice is threatened by a lower ratio to Bengal in regard to the purchase of machinery which would not affect Bombay in much the same way and probably would affect Bombay to a greater extent. The argument is fantastic and has absolutely no basis in facts.

Even assuming that there are some particular facilities in Bengal which make it advantageous and profitable to start mills here when the rupee is worth 18d., can anything, I would enquire, prevent Bombay millowners from erecting their new mills in Bengal? As a matter of fact Bombay millowners have already been extending their enterprise outside their own province such as at Lyallpur, where they are considering it specially advantageous to set up mills owing to the facilities for obtaining long stapled cotton grown in the locality.

IMPLICATIONS OF RATIO

I would admit, for the sake of argument, that a higher exchange ratio will help Bengal by cheapening imported machinery, and that a lower ratio will make the price of the same dearer to the extent of the devaluation. But before preferring one to the other let us examine their implications. Suppose Bengal starts a mill with machinery worth 10 lakhs of rupees when the exchange is 18d. Let us also assume that the effective productive life of the machinery is 10 years—not an unreasonable assumption. On a conservative estimate, this machinery may be expected to produce goods worth at least Rs. 10 lakhs every year, if not 15 lakhs. If the ratio were 16d. the millowner would have to pay 12½ p.c. on 10 lakhs, or 1.25 lakhs. But during these ten years he would be enjoying a 12½ per cent protection on an annual production of 10 lakhs worth of goods, or 1.25 lakhs every year. In other words whatever initial disadvantage there may be in the purchase of machinery under an 18d. Rupee it will be wiped out in the very first year, and the protection of 12½ per cent received by the manufactured goods will continue to benefit the industry for every succeeding year.

Along with the cheapening of the price of imported machinery, a higher ratio, it should be remembered, will also cheapen the price of imported cotton goods and thus intensify the competition of foreign goods with the products of Indian mills, be they situated in Bombay or Bengal. If in the present circumstances when the international competition is so intensive and wide that the goods manufactured by the home industry cannot compete with imports, whoever would care to invest in it merely for the cheapness of machineries? No doubt the cheapness of machinery helps to reduce the cost but the advantage given by it in resisting foreign competition would be far outweighed by the protection given by a lower ratio to the goods produced by the machinery. As between Bengal and Bombay, a lower ratio should not prejudice the cause of industrialisation of the former as against the higher cost entailed by the ratio should be set the still greater percentage fall in the basic value of machineries which has taken place since the onset of the depression. The prospective buyers in Bengal should moreover be in a position to obtain a positive advantage against the established mills in Bombay in so far as they would now get the most up-to-date machineries with greater productive efficiency. It is on account of this comparatively greater efficiency of plants that Ahmedabad and Delhi have been going ahead of Bombay. These facts clearly demonstrate that the development of the cotton textile industry in Bengal would not be adversely affected by a devaluation of the Rupee. The conclusion holds good as much of other industries as of cotton textile owing to the extra protection given by a lower ratio. And between Bengal and Bombay, as I shall presently explain, in so far as a devaluation of the Rupee would help to bring about a general enhancement of prices, particularly of the articles of export and would in respect of some commodities even held an expansion of exports, Bengal would be much more a gainer by it than Bombay as the value of her export trade is more than twice as great as that of Bombay.

EXPORTS OF INDIAN MERCHANDISE (1932-33).

Bombay 23.2 crores.

Bengal 55.8 crores.

Apart from the extent of the probable gains, the need for devaluation should be considered more urgent in the case of Bengal as her

is more dependent on foreign markets for the sake of her staple commodities than Bombay, for while about 50 per cent. of the most important crop in the latter, viz., cotton is consumed within the country more than 95 per cent of jute (both raw and manufactured), the corresponding crop of importance in Bengal, has to be sold abroad.

DEVALUATION AND SMALL INDUSTRIES

Further, we must realise that the slightly higher price that we will have to pay for machinery with a lower exchange is so much protection to manufacturers of machinery in India, which will induce people to start making machines and machine parts in India. You have only to go round the side streets of Calcutta and other bigger towns in Bengal to see the many small workshops, run mostly by middle class Bengali youngmen of energy and enterprise, turning small and often even large machine parts, bicycle parts, electric fan parts, motor car parts, flour milling machinery parts, electrical machine parts, etc. There are thousands of our young men earning their livelihood in these occupations. They constitute one of the finest, most hard-working, intelligent and most resourceful section of our society. I have no hesitation in saying that they are the potential recruits for an industrial Bengal, and I see in this direction a solution also of the problem of our unemployed educated middle class young men. Here we are on the one hand attempting strenuously to solve our problem of unemployment and on the other advocating a currency and exchange policy that will ruin their present occupations and throw more of the flower of Bengal into the ranks of the unemployed. Nobody who has the economic welfare of Bengal at heart can contemplate such a disastrous policy. In the interest of our middle class unemployed one must strongly oppose this misguided move to maintain an overvalued Rupee. Only a few years ago, a large number of small enterprises came into being, mostly as a result of the ingenuity, enterprise and industry of our youngmen, even though they were handicapped in many other directions. Where are those small cutlery making establishments, those small workshops making tools, agricultural implements, locks, trinkets and other useful little things? They have been washed away by the wave of cheap foreign imports. I would not suggest that the over-valuation of

the rupee is the only factor which has brought our industries to their present plight, or that devaluation will bring about an immediate economic regeneration of all our handicraft industries. But it certainly cannot be gainsaid that devaluation will considerably help quite a number of these struggling industries.

BALANCE OF TRADE

It has been argued that an over-valued Rupee will increase our Home Charges and foreign obligations. Without questioning the theoretical correctness of this contention, I would like to say that it is not enough to merely convert our foreign obligations or Home Charges at various rates of exchange and say that at a certain ratio they will be cheaper to repay in rupees. You must go behind its mere arithmetical conversion rates and their total or annual values in terms of rupees. It is more important to find out the policy that will enable you to increase your economic ability to meet them, and fully repay them, if possible. Ultimately we have to meet them out of our trade balance—that is, out of our surplus of exports over imports. In the absence of a favourable trade balance you must meet it by exporting gold, as we have been doing for the part two years. The almost catastrophic decline in the balance of our foreign trade in merchandise since 1930-31 shows how dangerously our position as a debtor country has been undermined during this period, owing to the shrinkage of our export trade :

BALANCE OF TRADE IN MERCHANDISE

1930-31	.. ..	Rs. 62 Crores.
1931-32	.. ..	Rs. 34 Crores
1932-33	.. ..	Rs. 3 Crores

Surely a drastic fall from Rs. 62 crores to 3 crores within three years could not have been brought about only by the world depression in trade ; that this has been partially due to the over-valued Rupee is most effectively pointed out by the fact that our imports have not fallen proportionately to the extent of our exports. The evil effects of an over-valued rupee upon our international trade are amply illustrated in our foreign trade figures. A high exchange ratio, as I said, is a bounty on imports, and in the year 1932-33, in spite of the terribly depressed con-

ditions in India, the value of our total imports increased by 4.8 per cent as compared with 1931-32.

On the other hand an over-valued rupee is a serious handicap to our export trade, which declined in 1932-33 by as much as 15 p.c. as compared with the previous year. Such a large decline coming after 3 years of shrinkage is the most eloquent condemnation of the ratio and the most convincing reply to the advocates of over-valuation:

Let us see how we have fared in comparison with other agricultural countries, which have not only abandoned the gold standard but have also devaluated their currencies.

Percentage Decline in Imports and Exports in Dollar values between 1929 and 1932.

			Imports	Exports
Australia	..	..	74	55
Canada	..	..	69	60
Argentina	..	..	74	64
New Zealand	..	..	66	58
India	..	..	61	70

India's imports have declined the least and her exports have declined the most. Further comment is superfluous.

Let us again compare the percentage share of the world's trade of some of these countries with that of India.

		1929		1932	
		Imports	Exports	Imports	Exports
Australia	..	1.98	1.79	1.35	2.10
Canada	..	3.65	3.71	2.87	3.83
Argentina	..	2.30	2.74	1.55	2.59
India	..	2.54	3.54	2.53	2.79

The percentage of import trade of India has been practically stationary, whereas that of all the other countries has been reduced. In export trade Canada and Australia have expanded. The Argentine has declined slightly; but India has receded strikingly.

HOME CHARGES

The real question, therefore, is whether an 18d. Rupee will help us to get a larger favourable trade balance, so as to be in a position to meet our Home Charges ; for obviously, it would be of no use to artificially reduce their burden by maintaining the rupee at a higher value if you are also thereby reducing to a greater extent the trade surplus out of which ultimately even the small amount of rupees must be found. If you make the Rupee dear, as the protagonists of 18d. advocate, you cheapen and encourage imports and correspondingly you diminish exports, which necessarily means a shrinkage in the favourable balance of trade, if not its total disappearance. On the contrary, if you devalue the Rupee and make it cheaper you will thereby discourage imports and give a fillip to exports, which will naturally give you a larger favourable balance of trade, out of which you can easily meet your foreign obligations. The point I wish to emphasize is that the mere increase in the value of the Rupee cannot enable you to meet your Home Charges or your foreign obligations. These can only be paid in the real sense by creating a sufficiently favourable balance of trade. A high high-valued Rupee by the very encouragement it gives to imports would, generally speaking, destroy our favourable balance of trade.

In the olden days when the Rupee was worth 16d. India had bumping favourable balances of trade, and the Government found it so easy to pay their Home Charges. The Home Charges never worried them. And now when the Rupee is 18d. our trade balance has declined so dangerously that it is insufficient to meet them, and we have therefore had to export immense quantities of gold to make up the deficit. During the last two years we have exported gold valued at the fabulous amount of 127.61 crores. Quite a large part of it was distress gold which had to be parted with because the export of commodities could not be maintained.

I admit that the depression is largely responsible for the shrinkage in the favourable balance of India's trade ; but it cannot be denied that the devaluation of the Rupee would have stimulated our exports, discouraged imports and helped us to obtain a much larger trade balance and facilitated the payment of our foreign obligations.

Even before England had suspended Gold Standard in September, 1931, and gold had begun to be exported, the Government of India had to resort to the device of transfers through the currency Reserves of that of borrowing funds in the London Market to put the Secretary of State in Possession of funds. The results in either case have been disastrous. Our monetary gold resources have been depleted, currency has been contracted to a colossal extent and our foreign obligations have been increased. As a matter of fact, during the five years before 1931-32, the Government of India could hardly remit Rs. 20 crores per annum on an average through the normal process, as will be evident from the following table:

Remittances to the Secretary of State during the years 1926-27 to 1931-32

Year	Net purchase of Sterling (in thousands of Rupees)	Transfer through Sterling Loans (in thousands of Rupees)	Transfer through Currency Reserves (in thousands of Rupees)
1926-27	89,02,18	—	23,43,00
1927-28	37,77,39	—	5,06,00
1928-29	41,02,18	8,00,00	—
1929-30	20,39,12	8,00,00	15,77,00
1930-31	48,82,1	5,32,00	11,63,00
Total	99,58,80	21,32,00	55,89,00
1931-32	34,05,91	—	37,73,00

Even during the year 1931-32, when the Government were successful in remitting as much as Rs. 34 crores, they could not purchase a single farthing of sterling from the market until October of the same year and as a matter of fact had to sell Rs. 19 crores in order to maintain the exchange. As has been admitted even by the Controller of Currency in his report for the year 1931-32, had it not been for the colossal export of gold from the country, the position would have been worse still.

I do not maintain that devaluation will not affect Government's financial position; in fact the Government are actually facing a deficit

in the current year, and a fall in the value of the rupee may cause further embarrassment. The question is, I maintain, much larger than Government's financial position. The country's economic interests must always have precedence over Government's financial conveniences. Government's financial troubles themselves would largely depend for their solution on the improvement of economic conditions within the country, on a rise in the prices and the purchasing power of the people.

EXAMPLES OF OTHER COUNTRIES

In the matter of our foreign obligations we need to take a lesson from England. When her balance of payments started dwindling, she depreciated her currency in order to restrict imports and stimulate exports. The convincing results of a devaluated pound sterling, even when the benefits accruing from Ottawa have been given due consideration, are illustrated below :-

GREAT BRITAIN'S NET BALANCE OF COMMODITY TRADE

	In gold \$ (000,000's)	
	12 Months	6 Months
	Jan. to Dec.	Jan. to June
1930	- 1880	- 906
1931	- 1813	- 885
1932	- 1001	- 515

In the first complete year after devaluation she reduced her unfavourable balance by almost half.

Again take the case of Japan. How is she able to sell so cheaply in India, flood the country with her goods and ruin our industries? Mainly by devaluating her currency. And yet there are people in India who will insist upon maintaining an overvalued Rupee and will not permit even a slight devaluation as a measure of protection for our industrial products against cheap foreign imports. If India would devalue her currency and establish the Rupee at a lower exchange parity, we will thus be taking away a large slice of Japan's advantages in the Indian market. Industries of Bengal have been most disastrously affected by Japan's depreciated Yen, and yet it is incredible that there can be

advocates in Bengal of an overvalued Rupee, I ask a straight question. Will a devaluated Rupee afford some protection to Bengal's struggling industries—enamelware, glassware, hardware, pottery, etc. ? If so, to deny its benefit when they have been all but overwhelmed and the vast sums of money invested in them all but lost, is the greatest dis-service and the most cruel economic policy. I wonder whether people who oppose devaluation have seriously thought over the ruin it will bring about to our industries, alas none too plentiful or strong ?

	Average de- preciation of Yen	Exports to India (Value in Rs.)
1930-31	7.70	14,61,10,000
1931-32	28.25	13,33,96,671
1932-33	29.51	20,50,17,602

This table clearly illustrates what advantage a devaluated exchange can confer upon the export trade of a country, and what havoc it can work on the industries of other countries if it is carried on ruthlessly.

DEVALUATION AND EXPANSION OF TRADE

I have pointed out on another occasion that a devaluation of the Rupee might not bring about an expansion of the trade in Tea owing to the restriction on its exports, of Jute owing to the nature of poor foreign demand and of Rice owing to the very small proportion it bears to our total exports. Even so, the actual trade figures do reveal some improvement during the year 1932-33, as compared with 1931-32 obviously influenced by the depreciation of Rupee following England's abandonment of gold.

EXPORTS.

	Tea (lbs.)	Jute manufacture (Cwt.)
1931-32	341.518	663
1932-33	378.836	679

Even apart from the testimony of experience in the past, it may be pointed out that devaluation is wanted to promote the most fundamental object of raising prices, though even in respect of the probable scope for expansion it may be stated on the basis of authoritative market reports that a devaluated Rupee will at least in the case of certain commodities stimulate exports, e.g., of jute and jute manufactures in America. It will also help expansion of exports of such articles as hides and skins, fruits and seeds which have to compete with other sources of supply and are being displaced by latter in recent times in markets abroad, particularly America. Scope for expansion exists in respect of India's exports to Turkey, Egypt and the Arabian ports. In addition to such probable expansion of exports of certain commodities India will stand to gain no less from a devaluated Rupee which will be advantageous not only to the indigenous industries but also give a much needed protection to our agricultural interests as well against imports of foreign wheat and rice.

It has been asked why our export trade has not expanded with a 33 p. c. depreciation against gold. The reason is simple. As will be admitted by even those who are against Devaluation at the present moment, Rupee was over-valued in September 1931 when however, the linking of the Rupee with Depreciated Sterling gave us no doubt some comparative advantage as against non-British countries, though in relation to sterling Rupee has continued to be over-valued. But along with India most of her great international customers have also gone off gold and depreciated their currencies and exchange to nearly the same extent. Thus while the relative advantage of depreciation has been lost the original handicap of over-valuation still persists. The depreciation of 33 p.c. now remains only against gold countries; that advantage is no longer available against non-gold countries, and this latter group consists of countries to which about 75 p.c. of our goods are exported.

The following table sets forth the value of India's exports in 1932-33 to various countries grouped under the three broad divisions, Gold countries, Sterlingaria, and other non-gold countries :

DIRECTION OF INDIA'S EXPORT TRADE IN 1932-33

	Value
Gold countries	Rs. 27,13,92,588
Sterling area	Rs. 67,27,26,306
Other non-gold countries	Rs. 38,02,37,043
Total	Rs. 132,43,56,937

It will be noticed that Sterling area is the largest group of our export customers and devaluation is the most potent means of achieving advantages in these markets.

DEVALUATION AND RISE IN PRICE

It has also been stated that as a consequence of the devaluation prices of agricultural commodities will not rise. That devaluation will not raise prices of agricultural commodities is as novel as it is contrary to all theory and practice. Devaluation must raise prices other things being equal. The following figures will prove that it did raise prices in India.

INDEX OF PRICES

	Jute	Tea	Rice
	Raw	Manufactures	
1931 June ..	45	67	74
July ..	44	65	76
August ..	46	68	76
September ..	51	69	73
October ..	62	80	77
November ..	60	83	76
December ..	58	87	78

It will be noted that immediately the Rupee was devaluated in terms of gold in September 1931 prices rose. But the advantage has not been quite so well maintained just because even though the Rupee was devaluated in relation to gold it remained overvalued in relation to Sterling at 18d. The steps taken by the Government in order to maintain this high exchange parity has further depressed prices. If along with the abandonment of the gold standard India had also devaluated

the Rupee in terms of Sterling as some of the Dominions and even countries like Norway and Sweden which have linked their currencies with sterling have done greater rise in prices would have been achieved. This is just what we should now advocate in order to receive the benefits that the abandonment of gold standard were expected to confer upon us. The right way of putting it would be that the expected improvement either in prices or in our export trade in view of the 33.1-3 p.c. depreciation of the rupee in terms of gold did not either materialise or continue on account of the fact that the rupee was over-valued, and that no steps were taken to devalue it in terms of sterling. Devaluation in terms of Sterling also is essential to achieve an adequate rise in prices. Our devaluation has been half-hearted it stopped half-way. Let us push it further, reduce the value of the Rupee in terms of Sterling and we shall immediately witness a welcome rise in prices. That a rise in price must follow a devaluation of the Rupee is clearly testified to by the experience of other agricultural countries within the Sterling Group which have depreciated the value of their currencies in relation to Sterling since England went off the gold in September, 1933.

Countries	Exchange Depreciation Aug. 1933	Percentage rise in Price level Aug. 1933
Australia	25	30.1 (July)
Canada	7	7 (July)
S. Africa	The percentage not available.	.76 (July)
India	No depreciation	- 2.2 (Aug.)

JUTE INDUSTRY IN BENGAL

If over-valuation of the Rupee is allowed to continue it may lead us to a danger which would have the most disastrous effects on the economic structure of Bengal. The jute industry of Bengal is heading towards an effective competition with the mills in Japan, which though still very few in number, possess at present a distinct advantage over the Bengal mills in respect of manufacturing cost and may with the attainment of slightly greater economy so expand in number and magnitude of their operation as to threaten a displacement of Indian

manufactures in foreign markets, particularly in America. The cost of shipping freight would give a special advantage to Japanese mills in this regard. The following figures showing the present comparative cost of jute in the manufactures in Japan and Bengal unmistakably reveal seriousness of the danger.

JUTE MILL IN CALCUTTA

(Cost per ton of jute manufacture)

Cost of 1 ton jute	Rs.	134
Cost of manufacture	Rs.	200
Total	Rs.	334
Cost in sterling at 18d. = 6012 pence		

JUTE MILL IN JAPAN

(Cost per ton of jute manufacture)

Cost of 1 ton jute	Rs.	134
Export duty	Rs.	25
Total	Rs.	159
Cost in sterling at 18d. = 2862 pence		
Export charges Yen 25 at 14½d. (rate of yen sterling exchange)		363d.

3225d.

Cost of manufacture Yen 200 at 14½d.	2900 pence
	6125 pence

The extremely narrow margin between the present manufacturing costs of Japanese and Bengal mills emphatically suggests that if only the former can economise their costs by even a small percentage, as may quite well be, the Bengal mill would be in jeopardy. The urgency of devaluation can hardly be exaggerated in these circumstances. Only by a devaluation of the Rupee can the danger be retarded effectively and beyond all fear, as it would turn the prices of jute manufactures in foreign markets decidedly in favour of Indian mills.

VIEWS OF PROF. KEYNES

Prof. Keynes has been quoted in support and reference has been made to the "Economic Consequences of Mr. Churchill." This is really

surprising, because Prof. Keynes has been the most persistent and ruthless critic of the over-valued pound. The very pamphlet referred to is an attack on Mr. Churchill's premature return to the gold standard in 1925, at what was considered at that time, an over-valued rate. The whole pamphlet is a tirade against over-valuation and well reasoned and passionate plea for the devaluation of the pound sterling.

DEVALUATION AND CONSUMER

In the arguments usually marshalled in support of a high rupee ratio prominence is given to its supposed benefits to the consumer. Its apparent solicitude for the masses should not blind us to its inherent fallacy. In the first place society cannot be split up into separate consuming and producing groups. Nearly all consumers are also or indirectly producers. If they have to pay slightly higher prices for such of the necessities of life as are imported they will simultaneously receive higher prices for what they produce. When you consider further that on the whole we produce more than we consume, and that the proportion of the necessities of life that have to be imported to that which can be found within the country is rather small, it would be clear that on the balance the country as a whole stands to gain from devaluation and the consequent rise in prices.

CURRENCY MANIPULATION

The statement of Acharya Roy asserts that the "remedy lies not in currency manipulation, but in better understanding between nations." The assumption underlying it is that 18d. is not manipulation, but 16d. would be so. It is a matter of common knowledge that the maintenance of the 18d. Rupee is itself one of the greatest acts of currency manipulation in recent times. It is universally admitted how money, volume of currency, transfer of funds from one reserve to another, in fact everything imaginable has been manipulated by the Government in their effort to maintain an over-valued Rupee ratio. It is surprising that Acharya Roy's objection to currency manipulation is directed only against attempts to achieve a lower Rupee, while he overlooks that for four long years desperate manipulation has been practised by the Government in order to maintain an 18d. Rupee.

CONCERTED INTERNATIONAL ACTION

To say that we must wait for "better understanding between nations" is almost a philosophy of despair. Does it imply that there is no blame attaching to the Government of India as regards the parlous economic condition in which this country finds itself to-day, that we must give up all hope and wait for the day when nations will come together? Is it suggested that there is nothing that we can do to improve our conditions? That Acharya Roy should advocate economic fatalism is almost unbelievable. At any rate other countries are not waiting inactively for "the nations" to do something. They have stepped out boldly and are determined to do their best, irrespective of what others think or do. England did not wait for the rest of the world to intervene in her behalf and cure her economic troubles; and has she not achieved a fair measure of success? And why should not India be able to achieve similar results? England devaluated her currency, she raised high tariff wall and rectified her balance of payments by restricting imports. Did America, Germany, Japan, Italy, Ireland wait for "better understanding between nations?" No. Why should India alone wait for it.

And even if we wait for it, are we sure of achieving it in the near future? What guarantee is there? As a matter of fact that nations of the world did meet only a few months ago; but they dispersed without achieving any thing. Should it not be a warning to our economic fatalists? This talk of international understanding is not going to get us anywhere. It is the argument of people too lazy to think, too timid to act. The argument is copied completely from the Government of India. It is their only excuse for economic inactivity. Prof. Gustav Cassel considered the question whether the rest of the world should wait for or the big countries to take the lead, and is of opinion that "other countries by no means need to remain entirely passive," and that "there is nothing to prevent them individually proceeding on the right road and introducing a rise in their price level."

Let us not be deluded. This country is not going to be helped on to her feet by the kindness of other nations. If we wish to overcome the present troubles we must think, decide and act ourselves.

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CURRENCY LEAGUE OF INDIA

BULLETIN NO. 11.

THE DEVALUATION MOVE

Should Bengal Support It?

(By Nirmal Chandra Ghosh)

JEHANGIR WADIA BUILDING,
ESPLANADE ROAD, FORT,
BOMBAY.

CURRENCY LEAGUE OF INDIA

OBJECTS

1. To encourage and provide facilities for a systematic and impartial study of questions relating to currency, so that a currency policy best suited to the interests of the country may be evolved.
2. To educate and organise public opinion with a view to opposing the continuation of the 18d. sterling ratio as is sought to be done through the Reserve Bank Bill; and to bring about an immediate devaluation of the rupee.
3. To do all other things for the promotion of the above Objects.

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Currency League of India.

BULLETIN No. II.

THE DEVALUATION MOVE

Should Bengal Support it?

(By *Nirmal Chandra Ghosh.*)

The move for the devaluation of the rupee as started by the Currency League has given rise to various comments in this part of India. There is a section of Bengalee economists who believe that devaluation of the rupee will be detrimental to the best interests of India and positively ruinous for Bengal. Some of our economists suggest that it is a move organised by the Bombay industrialists in order to exploit Bengal.

Since the spread of the freedom movement in this country, sectional, communal and provincial jealousies are being continuously fanned up by a class of people. If the Hindus take any lead for bettering the condition of the country, the communalist Mahomedan leaders at once spread the idea that the result will be detrimental to Muslim interest. Similarly suspicion and distrust are being constantly created between Brahmins and Non-Brahmins, Hindus and Muslims, Caste Hindus and Depressed Classes, Bengalees and Marwaries, Parsees and Bhatias and so on. I do not question the sincerity of the protagonists of this school of thought, but I think their visions have been blurred by Provincial jealousy and would therefore ask our countrymen to pause and consider whether a thing which is good for the whole country is not beneficial to the different castes and communities also. If in a family or in a State every individual displays extreme selfishness, the family or the State is bound to collapse in no time. Similarly, I should like to warn our political leaders and economic thinkers against the narrow mentality they are displaying in the columns of newspapers. If it be correct

to say that Bengal is being exploited by the Bombay mill owners it will be equally correct to say that the Chemical and Pharmaceutical Works of Bengal are exploiting the whole of India. Illustrations can be multiplied add infinitum which will only flame up provincial jealousies making nationalism impossible in this wretched country.

It is often said that the political leaders of Bengal have failed to command all-India respect owing to the antipathy of the people of other provinces. But I think it will be correct if I say that it was due to their own fault. Each and every one of our leaders has the vanity to entertain the idea that unless the country is freed by his own party the freedom is not wanted at all. Similarly, some of the Bengalee economists are echoing the identical spirit, viz., that if a lower exchange is not beneficial to Bengal, the other provinces should not be allowed to derive any benefit from it. Even if it be admitted that the exchange depreciation would improve the condition of other provinces, but not of Bengal, should we be right in withholding our support to it?

BENGAL'S POINT OF VIEW.

Now let us examine the question of the devaluation of rupee from the point of view of Bengal. During the major portion of this century rupee had been linked to sterling at the ratio of 16d. Nobody can deny that the ratio worked smoothly. In the year 1927 the Secretary of State for India thought it best to fix the exchange ratio at 18d. to the rupee. In order to clarify the true meaning of devaluating the rupee I would confine myself to the merits and demerits of 16d. ratio as opposed to the present ratio of 18d. to the rupee. A ratio of 18d. means Rs. 13/5/- to the pound sterling as against Rs. 15/- with a 16d. ratio.

Everybody knows that India is a great exporter of raw materials to all the countries of the world, and she must maintain a favourable balance of trade sufficient to cover the Home charges which she has got to pay to Great Britain. For every exportable goods again there is a world competition. If Russia offers a bag of wheat for £1/- nobody will offer India one shilling more for the

same commodity. Even in the case of jute, for which we are supposed to enjoy a monopoly, we find from everyday experience that a rise in the price of cotton in U. S. A. inevitably causes a rise in the price of jute and vice-versa. Consequently if our exported goods are sold for £1/- we get for it Rs. 15/- at the 16d. ratio and Rs. 13/5/- at the 18d. ratio. I therefore ask the readers to judge whether we should support 18d. or 16d. ratio. From this it can be easily understood that our agriculturists stand to gain more by a lower ratio or the devaluation of the rupee.

During the last three years we are feeling enormous difficulties in selling our produce in the world markets as we are being undersold by other countries. This is mainly due to overvaluation of our rupee. It has recently been reported that Japan has landed a cargo of rice at Karachi and which is being sold at a lower rate. This has been possible for Japan owing to the devaluation of her currency. Bengal and Burma used to export a good quantity of rice outside India but they are now totally handicapped owing to the over-valuation of the rupee. The price of tea and jute would have gone up further by a proper devaluation of our exchange. Even in the case of coal, the South African imports at Bombay has been considerably helped owing to our over-valued rupee.

EFFECT OF LEAVING GOLD STANDARD.

Some have argued that due to the abandonment of the gold standard by Great Britain although the intrinsic value of the Indian rupee has been considerably lowered, it has failed to effect any rise in the prices of our agricultural products. We must not forget that although India has abandoned the gold standard the rupee—sterling ratio has been kept unchanged at 18d. to the rupee. A large portion of our exports go to Britain, and owing to the fixity of this ratio we get no advantage from our sales to Britain. Most of our other big customers have devaluated their currencies making it impossible for us to derive any benefits from them. Japan has reduced the value of her currency by nearly 50 per cent and United States have devaluated the dollar by about 33 per cent. Many other gold standard countries viz., Norway, Sweden,

Portugal, Persia, Egypt, Canada, Australia, New Zealand, South Africa etc., have come under the sterling group. But for these factors the prices of our exports would certainly have gone up. As a matter of fact, when Britain went off gold in 1931, all the agricultural commodities in India underwent a sharp rise of prices. But the rise could not be maintained owing to the above and other causes. It may at least be stated that if the rupee would have maintained the 18d. gold pound ratio, its effects would have been far more disastrous to the agriculturists. If the flight from gold has not been successful in raising substantially the prices of our agricultural products, it has at least been able to prevent it from an even greater fall.

OTHER FACTORS.

One of the writers has expressed that even if the prices of jute and other agricultural commodities rise, the cultivators will derive no benefit therefrom since the middlemen and the Fatkawallas will swallow everything. If the writer is so certain about the profits from jute Fatka and middlemens' business why does he not take to this occupation? Those who are in the trade know well the amount of risks and uncertainties in the jute business. Apart from this, from practical experience we find that any rise in the price of jute in London is at once reflected on the Calcutta market, and within twenty-four hours even the remotest jute areas and the most backward cultivators receive the message. If the writer will kindly go through the old newspaper files he will find that when Britain went off gold in September 1931, the prices of jute in the *muffasil* were in some places even higher than Calcutta. Even to-day the prices in the *muffasil* are higher than the Calcutta parity. No practical man can deny the fact that the slightest rise in the prices of our produce will be enjoyed by our agriculturists.

INCIDENCE OF TAXATION.

Although the prices of agricultural commodities have gone down abnormally making it impossible for our cultivators to make any profit, the taxation payable by them remains unchanged.

During the Hindu and the Moslem rule they had to pay a share of the produce, and consequently they could always enjoy their own shares and as such the price fluctuations did not affect them in any way. But now-a-days after paying the taxes they find that there is scarcely anything left for them. It should be noted in this connection that in this country the non-agriculturists—industrialists, lawyers, physicians, journalists, scientists etc.—earn their livelihood out of the profits made by the agriculturists. Consequently the high rate of taxation, as a result of the over-valued rupee, can never be supported by any reasonable person.

It has been argued that as a result of devaluated rupee the incidence of taxation will be lower which will cause a deficit in the Government revenues, and as a result the Government will be compelled to assess fresh taxation. As against this I should state that in Bengal the land revenue is a fixed charge which cannot be enhanced. Regarding the other sources of revenue, both Central and Provincial, I venture to say that there will be an increment of receipts. The profits left in the hands of the cultivators will be spent by them in various ways and move from hand to hand. This will not only stimulate trade and industry, but the circulation of this spare money will be a source of income to all the classes of people. Consequently the revenues derived from Income-tax, Customs duty, Stamp fees etc. will increase, and instead of a deficit budget a surplus will result.

HOME CHARGES.

It has been argued by the spouses of the higher ratio that the devaluation of the rupee will enhance our annual debt payment proportionately. I admit this. But against this I must point out our annual savings. We are all aware that in the Army and the Civil Services, both Central and Provincial, a large amount of salary is paid every year. These salaries are paid in rupees and not in sterling. The total amount of salaries thus paid to foreign employees in India every year is many times more than the Home charges. But here we shall make a profit by paying the foreign employees in a devaluated rupee, and our

profits are sure to be greater than our losses on the Home charges. These profits will be enjoyed by the Indian tax-payers as they will have to pay taxes in a devaluated rupee, that is a lower tax. I have already mentioned that a lower-tax increases the purchasing power of the people and help its economic development.

GOLD EXPORTS.

I have already stated that the overvalued rupee has discouraged exports from India while it has not failed to encourage imports. The result has been that our normal balance of trade which was about 50 crores of rupees per year has dwindled down to almost nothing. It may be argued that owing to the present trade depression exports have diminished in all the countries of the world. As against that I must say that in most of the countries the imports have also decreased proportionately. But in India while the exports have diminished in a geometrical progression the imports have taken the course of arithmetical progression.

India is a debtor country. She must pay to Britain every year, as Home charges, the interests on her debts and pensions for services rendered by foreigners. These were usually paid from our trade balances. Since our trade balances have almost vanished owing to diminished exports, we have been paying these charges by gold exports. Unless we can improve our export trade and restrict import by devaluating the rupee, the gold exports will continue till our hoardings are fully exhausted. I find that some of the supporters of the 18d. ratio have also supported Government's gold export policy. When all the advanced countries of the world are purchasing gold at rising prices, when the whole of Indian nationalism demands the stoppage of gold exports, it is a pity that some of our economists are busily educating the public that it is the most beneficial act done by our Government.

INDUSTRIALISING BENGAL,

It has been said that rupee devaluation is a mischievous move engendered by the Bombay-Ahmedabad mill owners since it will

raise up the prices of imported machineries and frustrate Bengal's industrialisation scheme, and at the same time act as a protective tariff against foreign imports of piece-goods which will result in a rise in the prices of piece-goods and produce prosperity in the industries owned by them. Nobody can deny the truth of this statement. It should not however be forgotten that if there are three hundred cotton mills in Bombay, there are at least three in Bengal. If Bombay mills prosper as a result of devaluation, the Bengal mills also will share in the prosperity. If the Bombay mills suffer from losses due to overvalued currency, it will be impossible for the Bengal mills to escape from that fact.

An over-valued currency will give us cheaper machinery but the industry will suffer from losses. Will anybody dare to invest in an industry with the prospects of sustaining a loss even if the machineries can be obtained for a song? The real impetus for the starting of a particular industry can be got if the existing concerns run on a profit. In these days of ruthless competition and dumping, our industries can hope to exist only by protection. If we deny protection to Bombay owing to our short-sighted jealousy, it will end in killing our existing industries—not to speak of the dreams of our future industrialisation.

Let us consider the matter in another way. For starting a 400 ton Sugar Factory we require a capital of Rs. 15 lakhs. Out of this only Rs. 5 lakhs is required for the purchase of machineries. If the rupee is devaluated 2d., we will require to pay one lakh more for the machineries. But is our industrial ambition stopped for this one lakh of rupees? Full two years have elapsed since the Govt. of India have granted protection to the Sugar Industry. The non-Bengalees have started about 100 big sized factories. What have we done? We have not yet been able to start a single big sized factory. If our activities would have been stopped for one lakh after raising Rs. 15 lakhs, there would have been some justification for our lamentations.

Where lies our defect? It should be noted that the existing industries in Bengal owe their existence to the contributions received from the middle-class people. Our rich men are quite happy

with the G. P. Notes and the zemindaries. They will never invest in industries and take risks. During the last few years, several limited liability companies have been registered for erecting cotton and sugar mills. But alas the required funds are not forthcoming. Our middle-class people have got no income and therefore cannot spare funds for investment. The agriculturists feed the middle class. When they are thoroughly dried up owing to price depression and overtaxation, how can they feed the middle class? I need not re-iterate here that price depression and over-taxation are both caused by an over-valued rupee.

COST OF NEWSPRINTS.

We have been told that the lowering of the value of rupee will raise up the cost of imported newsprints and affect the newspaper industry. I may be permitted to state that the Govt. of India will never allow a secret rebate of customs duty to the Bombay newspaper-owners, and all the newspaper proprietors of India will be placed in an equally disadvantageous position. Are the non-Bengalee newspaper proprietors foolishly advocating a cause which is detrimental to their own interests?

But is the cost of paper the sole consideration in the newspaper trade? Even a layman knows that subscribers and advertisements are the mainstays of this trade. If these two factors are wanting, even a free supply of newsprints cannot maintain this trade for even a day. Unless the subscribers earn money how can they pay for the newspapers? This trade is painfully aware that owing to the continued depression the unrealised balances with the agents are steadily swelling. Regarding advertisements it can be easily understood that unless the trade and industry prosper they cannot afford to pay for it. But how can our industries expect to thrive in these days of international competition and dumping unless they get protection? Nobody will deny that devaluation of the rupee is an additional protection to our industries.

In this connection I would cite one illustration. Three years back when the Congress adopted the Buy Indian movement, the

newspapers were severely hit owing to the withdrawal of the advertisements for foreign goods. The very existence of our newspapers was despaired of. But they soon found that their losses from Foreign advertisements were made up from the advertisements of Indian industrialists. The Swadeshi industries could prosper and advertise owing to the preference they received from us. But human nature being as it is the bulk of our people are liable to forget the Swadeshi sentiment as soon as the political agitation is over. The devaluation of rupee however will always provide a safe and additional protection.

RISE OF PRICES.

When some of our learned economists are sure that devaluation of the rupee will cause a rise in the prices of manufactured goods, they are doubtful about the rise in the prices of agricultural products. I fail to understand its consistency. They, however, emphatically state that the Bengal consumers should never be allowed to suffer from higher prices. I may be permitted here to analyse the mentality of the Bengalee intelligentsia who are generally wage earners and as such make observations from their own point of view. I have often seen alarming reports are published in the newspapers when the price of rice goes up. The reason is that most of our intelligentsia, being wage earners and Landholders with fixed income, are alarmed at the prospects of a rise in the prices of food-grains. They fail to realise that a rise in the prices of agricultural commodities is essentially necessary for the economic well-being of the country.

It is very interesting to note that these economists who want cheap goods for Bengalee consumers happen to be the sponsors of the Swadeshi movement and staunch advocates of the cause of khadi. I do not know how they will protect Swadeshi movement and Khadi industry before the deluge of cheap foreign goods. Any protective measure is bound, at least for some time, to increase the internal value of the goods. The most advanced countries all the world over are supporters of protection. The people of those countries are ungrudgingly bearing the burdens

of increased prices. I hope, in the near future, they will requisition the services of some of our economists in order to learn the blessings of lower prices.

The spirit of the Swadeshi movement is that the money must be retained within the country at any cost. If money is kept within the country and spent for the purchase of Indian made articles, it will circulate, breed and multiply making the whole nation more prosperous. The difference between the Moslem rule and the British rule lies in the fact that our Moslem rulers settled and spent the entire revenues in the country which helped in our economic prosperity.

I must relate an incident. When travelling in a train a few years ago, a Mahomedan gentleman, who was a fellow passenger, told me that his community cannot support Swadeshi because they are too poor to pay the comparatively high price. He further argued that as the Swadeshi industries are owned by the Hindus his community do not gain anything by supporting them. I was greatly shocked at the frank expression of views made by my Moslem fellow passenger. But how great has been my disappointment and dismay when I find from a newspaper statement that exactly similar views have been expressed by Acharyya Sir P. C. Roy! If the poison of provincialism can make Acharyadeva express these sentiments, then I have no complaint against my communalist Mahomedan friends.

ACHARYA ROY'S STATEMENT.

Acharya Sir P. C. Roy's sincerity, sacrifice and selfless devotion to the cause of the country has raised him to the highest pinnacle of fame and glory. I have got the greatest admiration for his constructive nationalism. I am therefore greatly pained to find his hallowed name associated with a statement which will not only humiliate Bengal in the estimation of the whole of India, but will also be used by the Government to check the surging tide of nationalism in this country. Further, the statement itself is full of inconsistencies. According to him, devaluation will not help to in-

crease the prices of agricultural products but the prices of manufactured goods are sure to rise. He anticipates a rise in the prices of goods manufactured by the Bengal Chemical and Pharmaceutical Works. I am afraid a shrewd reader may misconstrue this statement to mean that the raw materials of the Pharmaceutical Works must be goods imported from foreign countries. Again, the statement says that the costs of imported machineries and newsprints will rise. I do not understand why he fails to see that imported chemical goods also will rise to the great benefit of the Bengal Chemical products? It is an impudence on my part to analyse the statement associated with the name of the sage amongst men, and I therefore respectfully beseech him to reconsider the whole position in a further reveal?

GENESIS OF COMMUNAL AND PROVINCIAL JEALOUSY.

In this connection I may be permitted to trace the origin of provincial and communal jealousy. It is a matter of history that the Britishers were ably supported by the Bengalee Hindus in conquering not only Bengal but the whole of India. As a reward the Bengalee Hindus were placed in important posts under the Government in all parts of India. Throughout the length and breadth of India the position and prestige of the Bengalee Babus was just next to those of the English Sahebs. The Swadeshi movement which was started in Bengal in the year 1905, by the Bengalee Hindus, in order to set aside the partition of the province, made the Government adopt measures for teaching them a lesson. No time was lost for the starting of Hindu-Moslem communal jealousy in Bengal, and the reservation of Government posts for the sons of her own province ~~in order to excite hatred and jealousy~~ against the Bengalee Hindus in other provinces. The seeds of communal and provincial jealousies were certainly sown in an "auspicious" occasion, because we find that they are now full grown trees bearing unlimited number of bitter fruits. The Bengalee Hindus, who once commanded universal respect, are now looked down upon not only in other parts of India but also in their own province. Being one of them I can realise the pitiable position in

which they have now fallen and I have not the least doubt that the expressions they have made are bitter agonies of hopelessness and despair, rather than reasoned expositions of vital problems. My humble view is that communal or provincial jealousy will not heal the disease, on the contrary it will only tighten the ropes of the net in which they are now entrapped.

CONCLUSION.

It must not be forgotten that the major portion of the Indian exports go to Britain in the shape of raw materials and the major portion of Indian imports consist of manufactured goods from Britain. As a purchaser of raw materials and seller of manufactured goods, Britain's interest is to maintain an overvalued rupee in India. So, whatever may be the intensity of our demand to reduce the value of rupee in relation to sterling, Britain can never agree to devalue rupee in terms of sterling. It is nevertheless our duty to educate public opinion and present an united front before our rulers. It is therefore greatly regrettable that some of our economic thinkers and nationalist leaders have given an unintentional support to the Government by the publication of these hasty and ill-considered statements.



CURRENCY LEAGUE OF INDIA

BULLETIN NO. 12.

The 18d. Ratio and The Plight of The Indian Agriculturist

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CURRENCY LEAGUE OF INDIA

OBJECTS

1. To encourage and provide facilities for a systematic and impartial study of questions relating to currency, so that a currency policy best suited to the interests of the country may be evolved.
2. To educate and organise public opinion with a view to opposing the continuation of the 18d. sterling ratio as is sought to be done through the Reserve Bank Bill; and to bring about an immediate devaluation of the rupee.
3. To do all other things for the promotion of the above Objects.

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*THE 18D. RATIO AND THE PLIGHT OF THE INDIAN AGRICULTURIST

Ever since the 18 pence ratio was put on the statute book in March 1927, its operation has been closely, even anxiously, watched by official and non-official observers. The contention of Sir Purshottamdas Thakurdas that the level of Indian prices had not been adjusted to the higher rate, that producers' costs in the country had not been sufficiently lowered to make sales at lower prices profitable and that the high ratio would disastrously affect the fortunes of India's export trade, was brushed aside by the Government members and their supporters who voted for the 18 pence ratio. But every day that the new ratio was in operation furnished fresh proofs of the validity of Sir Purshottamdas's contention. The opponents of the higher ratio took frequent occasions to bring the disastrousness of the situation to the notice of Government. But till the commencement of the great fall in prices in the closing months of the year 1929, it was difficult to secure even a hearing for these protests. The depression of prices and the consequent distress among the agricultural and commercial classes again forced the ratio issue into the arena of practical politics. While the Government daily encountered the evil effects of the growing impoverishment in the country side, it still refused to move an inch from its *non-possimus* attitude. But when the Reserve Bank Committee in London proposed a few months ago an indefinite prolongation of the present ratio, the issue could not conceivably be kept out of the legislative arena. It is proposed under the new constitution to prevent the legislature from entertaining a proposal to amend the Currency and Coinage legislation of the country without the previous sanction of the Governor-General. Thus not only was the Government unwilling to discuss the bearing of their ratio policy on the economic situation in the country but they seemed to aim at an effective forestalling of any future action in the matter at the hands of the Indian Legislature. The issue is thus raised both

* By courtesy of the Bombay Co-operative Quarterly this article will appear in its issue for December 1933.

on the economic and the constitutional grounds, and it is inevitable that when the Reserve Bank Bill comes before the Legislature the ratio clause will attract a fierce controversy. As the worst sufferers of the present exchange policy of the Government are the agricultural classes in the country it has become imperative to re-examine the situation from the stand point of their legitimate interests.

It is usual with the supporters of the present high ratio to make out that any downward movement of the rate of exchange will adversely affect the interests of the wage-earners, the salaried and the professional classes and of the public revenues. The actual experience of the last six years constitutes a thorough exposure of the hollowness of these arguments. It is indeed true that a scaling down of the ratio will be followed by a comparative rise in prices. But it is wrong to argue on the basis of the supposition that all increments in prices are definitely detrimental to the permanent and legitimate interests of the abovementioned classes. If the price level is lowered as the result of an unwarranted heightening of the exchange rate not only the producing but also the wage-earning classes have to bear the evil consequences. If the producers are forced to market their goods at unremunerative prices they are compelled either to reduce wages or to give up business. In both cases the wage-earners suffer in the end at least as much as the producers. The position of the professional and salaried classes is not essentially different. The demand for their services falls off, and as the public or private employers experience a shrinkage in their revenues they have to resort to curtailment of staffs and retrenchment of salaries. Even the contention that with a lower ratio the Government of India's finances will suffer a net loss on account of an increased rupee equivalent of its home charges is a half truth more dangerous than a stark untruth. What the Government might lose in increased expenditure on this account it will more than make good on its revenue. A straitened peasantry, an unemployed and impoverished middle class, and a losing industrial and mercantile community are certainly not the best tax-payers. Railways, income-tax, posts and telegraphs, even salt - all these are beginning to yield lesser returns, and the Government has been led on to impose such arbitrary levies as the recent 25 per cent. surcharge on all sources of central taxation. There are innumerable avenues of retrenchment in Government expenditure such as the revision of

exorbitant salaries. Any policy that would sacrifice the first interests of the national producers to the immediate needs of the year's revenue is in a line with killing the goose that lays the golden egg.

In fact, this attempt to pit certain non-agricultural interests against the legitimate claims of currency reform is an absurd debating make shift. Apart from the interests of individual classes and administrative authorities there are some fundamental principles of a well ordered currency policy which ought to be honoured irrespective of their immediate effects on particular classes. Within the limits set down by these primary considerations it might sometimes be necessary for the practical politicians to take stock of the reactions of their policy on important social interests. In this way, however, the consideration shown ought to be proportionate to social importance. If in applying a correct currency policy a conflict of immediate interests develops amongst various classes in the country the interests of that class which is the most vital to a healthy condition of the social economy ought to prevail. Most countries have as the backbone of their national life some such class and the interests of this class are the object of the anxious and fostering care of the State. Thus in England before the Industrial Revolution the landowners constituted the principal concern of the Parliament and the Crown. Since the advent of the Industrial Revolution the manufacturing and the shipping interests are receiving the treatment due to the principal partners in the production of national wealth. Special efforts are being recently undertaken to protect the interests of the agriculturists of Great Britain. In India by common agreement the national interest *par excellence* is, or ought to be, the agriculture interest. It might well be prescribed as an almost infallible maxim for the Indian legislators that when in doubt they should back the claims of agriculture. Take care of your agriculture and the rest will take care of themselves might well be the motto of India's economic policy. The official and British view of India's economic progress is to the effect that India will for long remain a predominantly agricultural country. And still when a policy of agricultural protection is pressed on its attention the Government finds convenient excuses in the alleged claims of certain non-agricultural classes. The solvency and increasing purchasing power of the landowners and cultivators is an indispensable condition of the prosperity of the Government and of

the urban population. If then the continuation of the present rate of Indian exchange were proved to be theoretically unsound and practically harmful to the interests of the agriculturists the case for its abandonment would be irresistible.

The plight to which the nation at large and particularly the agriculturists have been reduced during the last few years is too pitiable for words. It is only the innate passivity of the Indian people and the utter isolation from the life of the people in which supreme government authorities live and shape their policies that have prevented the mobilisation of social sympathy in support of the great national interest. To the extent to which the agriculturist consumes his own produce and pays for others' services and goods in kind the fall in prices has not adversely affected his lot. The extent of payments in kind is, however, very narrow and even in areas where cultivation is principally for subsistence a considerable portion has every year to be marketed for the purchase of services and commodities, or also for the payment of such fixed dues as interest, taxes and loans. In the case of the growers of commercial crops *e. g.* cotton, sugar-cane, oil-seeds and jute the fall in prices has hit the producers with special severity. In many parts of the country rents are fixed in money and the leases are executed for a number of years at a time. In these places the tenants find it impossible to meet the demands of the landlord. Arrears, indebtedness and privations are the inevitable outcome of such a situation which is extremely embarrassing both to the tenants and the landowners. It is well-known that the rates of interest are exceptionally high in India and that their level is determined by the customs of the trade and the position of the borrowers. With reduced prices not only does the cultivator find it difficult to meet this old interest and instalment obligations but any new borrowing is well nigh impossible except at ruinous rates. The co-operative banks which have their dealings with the cultivator members have latterly experienced almost insuperable difficulties in making recoveries. Indeed there are not a few co-operators who almost fear the worst in many areas. The Government demand for land revenue is theoretically based on averages of prices over a prolonged period and the land revenue codes do not ordinarily allow of remissions and suspensions on account of a fall in prices. We know how very wooden is the system of administration in India. It is

extremely difficult to secure for the people even such concessions as have been provided for by law. It would be hoping for a miracle to expect that the Government would run to the rescue of the landholders in an emergency not falling strictly within normal official operations. In fact in spite of the loud and heart-rending protests of the landholding classes the collections of land revenue have been effected with the usual rigour in almost all parts of the country. Any one who has the slightest acquaintance with country areas knows full well that while the government caravan proudly passes by as though nothing has happened out of the ordinary, the farmers, the landowners, the savkars and the co-operative societies are on the brink of an utter collapse. The standard of life in rural areas was never very high; the present conditions constitute a degradation which is beyond parallel.

The nature and extent of the fall in prices will be clearly seen from the following table of index numbers based on the pre-war level;—

TABLE I

Average for the year.	India Calcutta.	United Kingdom.	Japan.
1925	159	159	202
1926	148	148	179
1927	148	141	170
1928	145	140	171
1929	141	137	167
1930	116	120	137
1931	96	104	116
1932	91	102	122
1933 January to September.	87	100	136

It will be seen from the above figures that there has been a continuous fall in prices during the last eight years. Except in the two years to which the last Currency Commission referred as the basis of their recommendations in favour of the *de facto* 18*d.* ratio the Indian and British index numbers have never moved in unison. There are important reservations in the theory of purchasing power parity and the evidence of statistics, particularly of Indian statistics, is at all times of doubtful validity. But the Hilton-Young Commission found

its only scientific argument for the higher ratio in a completed adjustment between Indian and British prices and it is at least allowable to point out that this alleged adjustment is conspicuous by its absence in all the later years. Since 1926, Indian prices have moved down by no less than 61 points, whereas the British figure has moved down by only 48 points. From 1929, the year of the commencement of the depression, Indian prices have been lowered by 54 points whereas British prices have suffered a fall of only 37 points. It is further noticeable that whereas the British producers are getting at least the pre-war returns for their goods the Indian producers are down by as much as 13 points below the pre-war level. Contrasting with both the British and the Indian figures the index numbers of Japanese prices it will be observed that the total fall in prices in that country is greater than the British but less than the Indian. In particular, it will be observed that while the British and Indian prices have undergone a precipitous fall during the last four years the course of Japanese prices has been comparatively steady. In fact, during the last two years, there is a definitely upward movement, and while the present Indian figure is 29 points below the 1930 level and the British is down by 20 points, the present Japanese prices are on a par with the 1930 level. A continuing and precipitous fall in prices has landed the Indian producers at the pit of stagnation and has left them the unenviable task of marketing at less than pre-war prices goods produced at higher than the pre-war costs.

Where the indication of price indices is so very faulty and discontinuous as in the previous table it would be impossible to base our judgments exclusively on them. From the evidence, however, of the movements of foreign trade it is clearly proved that the influence of the existing ratio has been unmistakably exercised in the direction of discouraging the export trade of the country in favour of the import trade. During the last few years both imports and exports have fallen in total value. But the fall in exports is considerably higher than in imports. Taking the figures for 1925-26 as the base the following are the index figures for the imports and exports of private merchandise during the later years:—

TABLE II

	1925-26.	1926-27.	1927-28.	1928-29.	1929-30.	1930-31.	1931-32.	1932-33.
Imports	100	102	111	112	107	73	56	60
Exports	100	80	85	88	83	60	42	35

Such a continuing disparity between the movements of the imports and the export trade indicates that the rate of exchange is acting definitely to the detriment of the producers of exportable commodities. India has shared to the full in the world depression in prices and the unprecedented contraction of international trade. But the recorded figures and the observed facts would prove that both the fall in prices and the contraction of the external market for the nation's products have been substantially accentuated in India by the operation of an unjustifiably high ratio.

How the exports of the staple agricultural products have suffered in recent years will be obvious from the figures given in the following table. The figures given in Table II refer to all exports, but as these latter are predominantly agricultural the worst sufferers from the contraction of foreign demand have been the cultivators of the soil. The special hardship caused to the growers of principal exportable crops is illustrated in the next Table :—

TABLE III

Exports for the year (in lakhs of rupees)

	1925-26	1926-27	1927-28	1928-29	1929-30	1930-31	1931-32
Cotton, raw ..	95,25	58,94	48,01	66,41	65,22	46,32	23,44
Rice ...	39,97	33,19	34,00	26,46	31,50	25,81	17,84
Wheat ...	3,60	2,71	4,40	1,69	21	1,94	15
Jute, raw ...	37,94	26,78	30,66	32,34	27,17	12,88	11,18
Seeds ...	29,63	19,08	26,69	29,62	26,46	17,86	14,58

In fact, the influence of falling prices on the lot of the agriculturist is even more severe than can be judged from the general index figures given in Table I. The prices of agricultural products have fallen to a much greater extent than those of manufactured articles. The Calcutta wholesale price index number for September 1929, was 143. By September 1931, it had fallen to 91, a fall of over 36 per cent. From September 1931, rupee prices rose to some extent in Calcutta and the index number went up to 98 in December. This partially reflected the depreciation of the rupee in terms of gold. For

a time the rupee appreciated to some extent after December and the index number fell slightly being 94 in March 1932. Since the close of the financial year the fall has been even greater and in June 1932, the index number went to the lowest figure on record and was 86. Thus since September 1929, rupee prices have fallen by nearly 40 per cent. In September 1931, the percentage fall was highest in the case of oil-seeds which amounted to 55 per cent., followed closely by wheat, and hides and skins 53 per cent, and tea and cotton raw with a fall of 51 and 49 per cent, respectively. The fall in the case of jute raw was 43 per cent. On the other hand, the fall in the case of cotton manufactures was only 27 per cent., in the case of metals only 19 per cent. and of sugar and other commodities 18 and 36 per cent. respectively. If, however, we take June 1932, for comparison the greatest fall is in the case of hides and skins which have fallen by 66 per cent., and are worth a third of what they were in September 1929. The fall in the case of oil-seeds and raw jute amount to 59 and 58 per cent, respectively, whereas in the case of rice and tea the fall is 53 per cent. Raw cotton shows a fall of 48 per cent. and wheat of 41 per cent. The fall in the case of jute manufactures is, however, only 44 per cent. that in the case of cotton manufactures only 29 per cent., while metals and sugar showed a fall of 21 and 12 per cent. Thus, it will be seen that the fall is very great in the case of agricultural commodities and raw materials, but comparatively small in the case of manufactured articles." With an exceptionally low price secured for their products the agriculturists have to pay comparatively high prices for their non-agricultural purchases. As has been already described their obligations on account of rent, interest, taxes and debt repayment are almost at the same level as in days of higher prices. Even the wages of agricultural labour have moved but slightly from the high level attained by them in the period of high prices. This is a situation which spells certain ruin for the agricultural classes and it ought to be the endeavour of every official and non-official publicist to help the unfortunate sons of the soil out of their present helpless condition.

The supreme object of official policy must, therefore, be to raise agricultural prices and to encourage the exports of the country which have fallen to a record low level. These ends can be justifiably, effectively and safely attained only by the lowering of the exchange

ratio. Such a course is indicated by the recent and contemporary example of most advanced countries including Great Britain. It is well known that one of the well-marked effects of Great Britain's abandonment of the gold standard and the consequent depreciation of the sterling has been the check that it exercised on the dwindling trade balance and the reduced condition of national producers. The healthy influence that Japanese exchange policy has had in steadying and counteracting a sudden fall in prices is only too apparent from the figures contained in Table I above. France was wise in her day and while other countries under the mistaken lead of Great Britain restored their currencies at the pre-war level it stopped at as much as one-fifth of its pre-war standard of value. The franc which was related to the gold pound at about 9½s. was allowed to remain at one-fifth of its pre-war parity. Even a country like America which has the soundest economic system and which has suffered the least from the war and the depression has deliberately started on the road to a reconstruction of the price level through the restoration of a proper equilibrium between internal and external means of payment.

All these countries are under free, popular and competent governments. Though it would be misleading to describe their currency and exchange policies as being in all respects above criticism, it is undeniable that their actions exhibit a welcome tendency to realise that currency and exchange are, like all other social institutions, the servants and not the masters of human societies. Morbid and ante-diluvian prejudices against the so-called indignity of 'depreciation', are as unjustifiable as the old-world worship of a gold currency. There is nothing inherently bad either in depreciation or in deflation. In the interest of equilibrium between internal and external prices, between prices and costs, and that between exports and imports such alterations are not only justifiable but imperative. In fact, this was the self-same view which the Government of India advanced against those who, a few years ago, were insistent on one 'sanctity' of the ratio. There is a clear case in India at present for employing the agency of the rate of exchange to inaugurate the upward movement in prices and trade. If we allow this opportunity to slip out of our hands we would be doing a lasting injury to all the producers in the country, and in particular, to the great agricultural interest. We are witnessing our markets being captured by foreigners who are operat-

ing from behind the protecting walls of elastic currencies. Our markets abroad are being invaded by rivals who have more advanced and more untrammelled exchange administrations than ourselves. It would be suicidal both for the country and the government to wait till we are swept off our feet. The present is the time for action, and if the Government of India allows itself to be dictated to by British interests it will earn the just censure of the people of this country. Currency sanity and exchange freedom are the need of the moment, and whether the Indian agriculturist and all those who minister to his wants are to come out of the slough of low prices or they are to experience deeper stages of depression depends upon the decision now to be taken with regard to the rate of exchange.

CURRENCY LEAGUE OF INDIA

—: (0) :—

BULLETIN No. 13

THE DEVALUATION OF THE RUPEE

A REPLY TO

Mr. Jadu Nath Roy of Calcutta.

(BY D. B. TILAK M. A., L. L. B.)

Advocate, High Court Bombay,

**JEHANGIR WADIA BUILDING
ESPLANADE ROAD, FORT,
BOMBAY.**

CURRENCY LEAGUE OF INDIA

OBJECTS.

1. To encourage and provide facilities for a systematic and impartial study of questions relating to currency, so that a currency policy best suited to the interests of the country may be evolved.
2. To educate and organise public opinion with a view to opposing the continuation of the 18d. sterling ratio as is sought to be done through the Reserve Bank Bill; and to bring about an immediate devaluation of the rupee.
3. To do all other things for the promotion of the above Objects.

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THE DEVALUATION OF THE RUPEE

A REPLY TO

MR. JADU NATH ROY OF CALCUTTA,

(By D. B. TILAK)

In the issue of the "Times of India" dated 17th November 1933, Mr. J. N. Roy, a Bengal financier, has stated the following propositions, and the paper has published the same with big head lines.

- (1) that the 18d. ratio helps India by reducing the home charges in terms of rupees,
- (2) in no country in the world the urrency has been devaluated as such a course will have a disastrous effect on the country,
- (3) that the prices of commodities depend upon the laws of supply and demand and are not affected by the rate of exchange,
- (4) that the lower exchange will drive out all the gold resources of India if the gold price rises above Rs. 33 per tola,
- (5) that the Indian ryot will be hit hard by reason of the devaluation of the rupee as he is a consumer as well as a producer,
- (6) that the agricultural classes of India are in no way affected by the rise or fall in the rate of exchange,

(7) that the agriculturist has to buy more than he can produce for his maintenance,

(8) that the wage-earners who depend upon the fixed salaries or pensions will be hit hard if the rupee is devaluated.

I now propose to examine each of these points *seriatim*.

(1) 18d. ratio would reduce the amount of home charges and the gain is not inconsiderable. The amount of home charges is a liability against the Government of India which is fixed in sterling. As against the said liability the Government has also sources of income which vary with the rate of exchange and such income is in excess of the amount payable by the Government of India as home charges in sterling. I give below a statement showing the amount of home charges from the year 1926 to 1932 in sterling and also showing the income from customs which is based upon a percentage on the value of imports. It decreases with the rise in the rate of exchange and increases when the rupee is reduced in terms of pence. For instance, if 20% is the rate of customs duty calculated upon the prices of goods imported and the value of imports is £100 then the duty would be £20. And the same will be recovered at the ruling rate of exchange. That is, if the ruling rate of exchange is 18d. then the amount recovered will be Rs. 266-10-8 but if the ruling rate of exchange is 16d. then the duty recovered will be Rs. 300 and if the rate of exchange is 12d. the duty recovered would come to Rs. 400-0-0. The income from customs duties will always exceed the liability to pay the home charges and the Government of India will be at a great advantage even after paying the excess payable on home charges by reason of the fall in exchange. The loss that it will have to suffer in the excess of rupees paid for the home charges will be more than doubly recovered by the increase in the customs revenue. In the table given below the total amount of Customs Revenue has been put down though it includes the revenue recovered at fixed rates of customs duty and not as percentage on value of imports. But Government can always increase the fixed duties *pro rata* when the exchange is fixed at a lower rate and hence the above argument will apply equally to the fixed as well as percentage duties.

Statement showing the home charges and Revenue from Customs of the Government of India for the years 1926 to 1933.

Year	HOME CHARGES		Customs	Excess of Revenue over
	Sterling (Million)	Rupees (Crores)	Rs. (Crores)	Home Charges (Rs. in Crores)
1926-27	26.34	35.22	47.38	12.16
1927-28	26.53	35.37	49.21	12.84
1928-29	27.44	36.59	49.28	12.69
1929-30	28.00	37.33	51.27	13.94
1930-31	29.38	38.00	46.80	8.20
1931-32	30.30	40.40	46.22	5.82
1932-33	29.11	36.15	52.31	16.16

The excess of revenue would also increase with the lowering of the ratio in the same proportion as will be seen from the following table.

Rate of Exchange.	IN CRORES OF RUPEES.		
	Home Charges	Customs Revenue	Balance of Revenue in favour of the Govt. of India
	Rs.	Rs.	Rs.
18d.	36.15	52.31	16.16
16d.	42.92	58.85	15.93
12d.	62.22	78.46	24.24

The Government of India will improve its revenue position by 8.08 crores of rupees if the rate is reduced to 12d. which is not an inconsiderable advantage.

I give below a table showing the net export of trade in merchandise for the years 1927 to 1932 as also the net export balance in merchandise and treasure combined. It will show that India is in a position to pay her liabilities regarding home charges in kind and has not to pay the same in cash or otherwise. Whatever the rate of exchange may be the quantity of goods that

will be required to pay home charges will continue to be the same whether the rate of exchange is 18d. 16d. or 12d. and India is not likely to be a loser in any way whatsoever, India has been having a favourable balance of trade for the last 100 years and that is sufficient to cover the home charges and there is no reason why India should not be able to command the same in future, and particularly when the exchange is lowered down, the balance in favour of India is bound to increase. There are also other grounds on which it can be proved that the bogey of the loss on home charges is a fallacy, because what the Government loses on one hand is not only made up by the increase in customs duty but there is an addition to the income under customs by reason of the change in the ratio.

Statement of balance of trade in merchandise from 1927-28 to 1931-32.

(In Crores of Rupees)

Year	Exports	Reexports	Imports	Balance of Trade 18d.
1927-28	319.15	9.54	246.73	81.96
1928-29	330.13	7.83	251.49	86.47
1929-30	310.80	7.13	238.91	79.02
1930-31	220.46	5.14	163.62	61.98
1931-32	155.88	4.66	125.69	34.86

Balance of trade in merchandise and treasure combined.

1927-28	..	..	49.77
1928-29	..	..	51.11
1929-30	..	..	52.82
1930-31	..	..	37.55
1931-32	..	..	90.50

This balance of trade in favour of India could always be used for remittances to England with advantage to the Indian exporters and there is no reason for anxiety to Government in the matter.

(2) Mr. Roy has hazarded a statement to the effect that in no country the currency has been devalued in as much as such a course will have disastrous effects on the country.

I give below a statement showing the names of some of the most important countries who have already devalued their currency for the purpose of raising the level of prices. I feel certain that Mr. Roy will be convinced that the financiers and economists of those countries did not desire to court a disaster by devaluating their currency. I believe that the statement given below is a sufficient reply to Mr. Roy on this point.

Statement showing devaluation of important Currencies of the world in per cent of the intrinsic value.

Name of country	Name of Currency	Approximate Gold content	Present devaluation	Percentage to which it is devaluated
U. S. A. ..	Dollar	23 (Gr.)	15 (Gr.)	65
U. Kingdom ..	Sterling	113 "	72 "	63
Canada ..	Dollar	23 "	14½ "	62
Japan ..	Yen	10 "	5 "	50
France ..	Franc	5½ "	1 "	20
Italy ..	Lire	4½ "	1½ "	27½
Australia ..	Sterling	113	57	49
New Zealand..	"	"	"	49

I particularly invite the attention of the readers to the additional devaluation effected by Australia and Newzealand in order to increase the level of prices of their produce. India is on the same footing as Australia and Newzealand but Indian Currency, is linked at a fixed ratio to sterling while other dominions are free to fix their own ratios.

(3) The prices depend upon the law of supply and demand, Mr. Roy has correctly stated the proposition from the standard books on economics. The Commodity prices when referred to in the Books on Economics mean the prices in accordance with the world's standard of measure in respect of the said commodity. At present, the world's standard of measure is gold, but in India we have an over-valued currency, which intrinsically valued is not worth more than 28% of the

value artificially put on the same. And what is sought by the promoters of the Currency League is not the devaluation of the rupee but a reduction in the over-valuation of the rupee as it now stands.

Mr. Roy, it seems, has forgotten the fact that the rupee at present contains silver of the value of annas four and pies six gold only and as such it is a debased currency, over valued artificially at about 355% of its intrinsic value as will be seen from the table given below.

Statement showing the over-valuation of the rupee.

Year	Sterling dollar exchange in Pence	Average Silver price in Pence Gold	Average silver price per oz.	Average rate of exchange per rupee	Net value of rupee in Annas and Pies, (Intrinsic value)	Over valuation expressed in percentage on the intrinsic value of 100
					Rs. as. ps.	
1925 ..	4.85	31½	31½d.	18d.	0 10 4	58
1926 ..	4.85	30	30d.	18d.	0 10 0	60
1927 ..	4.85	26½	26½d.	18d.	0 9 4	72
1928 ..	4.85	26½	26½d.	18d.	0 9 5	71
1929 ..	4.85	26	26d.	18d.	0 9 4	72
1930 ..	4.85	20	20d.	18d.	0 7 1	126
1931 ..	4.60	12½	14½d.	18d.	0 5 2	310
1932 ..	3.40	12	19½d.	18d.	0 5 0	333
1935 ..	4.85	12	18d.	18d.	0 4 6	355

What is sought to be done is the reduction in the over-valuation of 355% to a figure of not more than 200% and not devaluation in the sense in which it has been introduced by the leading nations of the world. The sterling has been devalued in terms of gold from 113 grains to about 70 grains. We do not seek to devalue the rupee from four annas and six pies to three annas but the promoters of the Currency League seek to reduce the excessive over-valuation which now stands at 355%.

The level of prices at the Port of export depends upon the level of prices in the world and upon the laws of demand and supply but once that price is fixed the level of prices in the mofussil depends upon the amount of fixed rupee charges that the agriculturists have to pay for marketing their produce at the port of export. For instance cotton produced in U. P. has to bear the following costs.

Removal of cotton from fields to the Ginning factory and ginning and pressing charges together with the agent's commission at Rs 12 per bale	Rs. 12
Carting to Railway Station and railway freight from stations like Aligarh, Kasganj Itawa	Rs. 13
Mukadami sampling godown insurance and cotton duty Rs. 7 per bale	Rs. 7
	<u>Rs. 32</u>

The sale-proceeds of one bale would be in the vicinity of Rs. 72-8-0 in Bombay and the net sale-proceeds are Rs. 40-8 at the present exchange. It would increase as the exchange is lowered in accordance with the following table and thus the level of prices in the mofussil is controlled by the laws of demand and supply and the fixed rupee charges that have to be paid before the goods can be marketed as will be seen from the table below :

Statements showing the cost of marketing cotton from C. P. to Bombay and how exchange affects prices in the mofussil.

A Landlord in Yeotmal District owns about 165 acres of land out of which 52 acres were allotted to cultivation of cotton of Umra quality. The produce in the said 52 acres amounted to 10 bales and it was sent to Bombay for being sold in the Bombay Market. The cost and expenses incurred on the 10 bales after the cotton was gathered, were as under :-

(1) Removal of cotton from the fields to Ginning factory at Re. 1 per cart for 5 carts	Rs. 5 0 0
(2) Ginning and pressing charges at Rs. 6 per bale for 10 bales	Rs. 60 0 0

(3) Commission agents' charges at the place of the Ginning factory at Rs 1-8-0 per bale	Rs. 15 0 0
(4) Carting Charges at As. 4 per cart for 5 orts and Mukadams charges	Rs. 2 0 0
(5) Railway freight from Yeotna to Bombay ..	Rs. 122 8 0
(6) Mukadam charges, sampling, godown insurance and other charges at Rs. 5 per bale for 10 bales.	Rs. 50 0 0
(7) Cotton duty at Rs. 2 per bale for 10 bales ..	Rs. 20 0 0
	Rs. 274 8 0

The cotton bales at the present market rate would fetch a price of Rs. 200 at the rate of Rs. 160 which is the market rate to-day. The production of 10 bales of cotton in 52 acres is nearer to the average production of cotton in C. P. and Berar. The usual practice with the landlords and tenants who actually cultivate the land is in many cases to hand over a moiety of the produce to the landlord while the other half is considered a fair remuneration to the actual cultivator. Thus, out of the 10 bales produced, 5 bales would go to the tenant and only the other half would remain with the landlord who pays the land revenue. I give below a table showing the receipts of the landlord for his share of the produce and disbursements which he has to make from out of the same also showing the net income before deducting interest on investment depreciation or provision for bad years or for other charges in respect thereof.

The cost and expenses as shown above do not vary with the rate of exchange and are fixed in rupees and not in shillings and pence but the price of cotton which is an international produce is fixed by the laws of demand and supply of that commodity in the world and is quoted in terms of sterling or dollar; and therefore the rupee price varies with the rate of exchange, but, the railway freight, the land revenue, cotton duty, ginning and pressing charges all remain the same and do not vary with the rate of exchange. The result, therefore, is that if the rupee is overvalued and the level of prices is low the fixed charges swallow a substantial portion of the sale proceeds and the producer gets very little for himself.

Statement showing variation of the sale proceeds of agricultural produce namely 5 bales of cotton (Umra) under different rates of ratio.

Reduction in Rates	De-crease in Ratio	Rate per Khan-di	Total Price Rs.	Costs of market-ting Rs. a.	Net sale pro-ceeds Rs. a.	Land Re-venue Rs.	Net in-crease in re- turn in acres per cent	
							Rs. a.	Rs. a.
change 18d.	..	160	400	137 4	262 12	130	113 12	..
16d.	..	12½%	180	450	138 0	312 0	130	182 0 37%
12d.	..	33½%	240	600	140 0	460 0	130	330 0 180%

This Statement clearly shows that reduction in exchange of 12½% gives a benefit to the agriculturists of 37% and reduction of 33% gives benefit to the agriculturist of 180% in net income.

Every body is aware of the fact that commodity prices depend upon the law of supply and demand. But at present in India for a commodity quoted at 113 grains gold in the world, we are asked to accept silver coins amounting to Rs. 13-5-4 when the commodity if exchanged for silver would purchase silver equal to about Rs. 50 in silver contents. What the promoters of the Currency League are insisting upon is that if the commodity price of an article sold by India is 113 grains gold we in India are perfectly entitled to receive the price in a currency having an intrinsic value of about 113 grains and not the token coins of rupees Rs. 13-5-4 worth 30 grains of pure gold for goods worth 113 grains. The fight is not with regard to the commodity prices in the world, but regarding the rupee which is over-valued nearly three times over. If the rupee is to-day valued at its intrinsic level there is no ground for complaint and there would be no depression in India.

(4) The lower exchange will further encourage gold export at a time when it is necessary to conserve India's gold resources. Mr. Roy seems to think that gold was exported by India because of the lower

rate of exchange. This is not the fact. India has always been an importer of gold but India was obliged to sell and export gold owing to the unprecedented depression of trade and owing to the fact that the agricultural produce did not even bring in sufficient money to pay for rupee liabilities of the Indian Agriculturist and the public at large. India has always been an importer of gold and would still remain the importer of gold if only India had the means to do it. India was not in a position to pay its rupee liabilities either in the form of taxation or other charges or for purchase of goods which are necessities of life in India and therefore in order to pay off the liabilities India was obliged to export gold. The gold was not exported for profit because of the encouragement it received from the higher prices it fetched but because of the total absence of other resources and under pressure of distress and hardship and not otherwise. Every one in India is called upon to conserve the gold resources and the best way of conserving gold resources is to create the power to purchase gold amongst Indians and to stop export of gold by an act of legislature. And the only way to create and develop the power to purchase gold is to increase the purchasing power of the Indian ryot by valuing the rupee at its intrinsic value or thereabout. It can only be achieved by reducing the over-valuation of the Rupee.

(5 The Indian ryot would be put to a great hardship as he is as much a consumer as a producer. At present, 73% of the population of India is agricultural. And the requirements of the agriculturist are met almost wholly from the produce itself. Their requirements in the form of unskilled agricultural labour and skilled labour such as masons and carpenters, washermen, barbers, sweepers, watchmen as also their requirements of salt, spices vegetables, etc., etc., are all obtained either from their own produce or by bartering their produce with others and their requirements of non-agricultural produce consist of cloth and certain other articles of small value which form less than 20% of the total expenditure. For the purpose of making this point clear, I give below a family budget of an agriculturist showing the various percentages of his expenditure on the necessaries of life and Mr. Roy. will be convinced that 73% of the population of India lives upon its produce to the extent of 80% and makes purchases

of not more than 20% of its income. He loses by the lower ratio on the 80% while he gains a small benefit on 20% only. Thus his loss is four times greater than his gain by the high rate of exchange. In order to convince Mr. Roy of the above statement I give below a tabular statement showing the agricultural produce of a rural family and also the return that the family gets for the surplus agricultural produce which it sells and the disbursements in respect thereof; it will be clear that the rupee disbursements which are fixed become a heavy burden upon the agriculturist by reason of the high rate of exchange. The net balance remaining in his hands from out of the sale proceeds is shown in the table below :

Statement showing the ultimate income and expenditure of an agriculturist family in Karjat District having a small holding of about 4 acres of Paddy land.

INCOME : 4 Khandies of rice and-cattle food bundles.

Expenditure : Cattle food is reserved for the bullocks and milch-cattle of the family. Out of 4 khandies of paddy $1\frac{1}{2}$ khandi will be required for consumption by the family at home. $\frac{1}{2}$ khandi will have to be preserved for seeds for the next year.

He sells $2\frac{1}{2}$ khandies of Paddy in the market as his surplus after providing for his own requirements and realises Rs. 63 at the rate of Rs. 28 per khandy which is the market rate at present. His rupee liabilities are as under :—

Land revenue for 4 bighas at Rs. 7-8 per bigha is	..	Rs.	30
Clothing for wife	..	Rs.	3
Clothing for himself	..	Rs.	4
Clothings for children	..	Rs.	3
Clothings Kabali (blankets)	..	Rs.	3
Spices, salt oil, etc.	..	Rs.	12
Miscellaneous	..	Rs.	2
			57
	Total	..	Rs. 57

Thus he has to make payment of Rs. 37 in cash before he can think of any entertainments or marriages in the family or otherwise.

So that we now put the expenses on per cent basis.

Grain $\frac{1}{2}$ Khandi	42%
Seeds and manure	77%
Land Revenue	25%
Clothings	10%
Spices and salt, etc.,	10%
Balance	6%

100%

From the above it will be seen that the family owns the land and has no debt and yet it does not have more than 5% of his produce on hand as balance; its purchases do not exceed 20% of its produce and it is a consumer so far as 20% of his produce only. In this case the price taken is the price at Karjat i.e., the place where the rice was produced.

Table showing the Balance on hand at different rates of exchange.

Rate of Exchange.	Price of 2 $\frac{1}{2}$ Khanks.	Sale proceeds	Expenses	Land Revenue	Balance.
18	28	63	27	30	6
16	33	74	31 12	30	12 8
12	40	90	40 0	30	20 0

(6) Mr. Roy has made the statement to the effect that the agricultural masses of India are not affected by the rise or fall in the rate of exchange.

I give below three tables showing how the agriculturists are concerned with the question of the ratio and how their purse is affected by the exchange. The three tables relate to agriculturists producers of cotton, wheat and rice and each table will show that the return to the agriculturists is immensely greater with the lowering of the exchange and the price he receives for agricultural produce increases in a much greater proportion with the fall in exchange. The loss he is likely to incur by reason of the increase in price of articles which he has to purchase will be compensated more than ten times over.

Statement showing how the agriculturists are affected by the rate of exchange in India.

The landlord in question owns 12 acres of land in U. P. wherein wheat was grown and according to the terms of the tenancy the land

lord got for his half share of the produce 70 Bengal maunds or 2½ tons of wheat which when despatched to Bombay for sale realised Rs. 280 at Rs. 4 per cwt. ; the costs of taking the goods to market at Bombay from Punjab are Rs. 13 per Khandi which is equal to 9 Bengal Maunds.

Wheat has an international product and its price is fixed in £ sterling.

The table below shows the difference in the net returns to the landlord at 18d. 16d. and 12d.

Rate of Ex- change	Amount of price in at £ 6 per ton	Amount in Revenue	Land Rs.	Other Expenses Rs.	Net Increase Price in return Rs.	Price per Cwt.
d.	£	Rs.	Rs.	Rs.	Rs.	Rs. as, ps.
18	15	200	60	100	40	2 0 0
16	15	225	60	100	65 63%	2 8 0
12	15	300	60	100	140 350%	4 0 0

From the above table it will be seen that when the ratio decreases by 12½% the return to the agriculturist increases by 63% and when the ratio is reduced by 33% the return increases 350%.

Statement showing how commodity prices of cotton in C. P. and Wheat in U. P. vary from the prices in Bombay which vary with the world prices and the laws of demand and supply. The prices for the agriculturist in the mofussil increase in a greater measure with the fall in exchange as shown below.

	Ratio	Bombay price	Expenses of marketing in Bombay from place of origin	Net price to agricul- turists	Fall in Exchange	Rise in level of prices in the Mofussil
Cotton C. P.						
1 bale	18	80	27 8	52 8		
	16	90	27 8	62 8	12½	19
	12	120	27 8	92 8	33	81
Wheat U. P.						
One ton	18	80	40 0	40 0		
	16	90	40 0	50 0	12½	25
	12	120	40 0	80 0	33	100

In the case of cotton in C. P. the rise in the level of prices is 19 per cent when the fall in exchange is $12\frac{1}{2}$ p.c. while the rise is 81 p.c. if the exchange falls by 33 p.c. Similarly in the case of wheat in U. P. the rise in the level of prices is 25 p.c., when ratio is reduced by $12\frac{1}{2}$ p.c. and the rise is 100 p.c. when rupee is valued 33 p.c. lower.

Statement showing the position of a Holder in Alibag District in respect of lands leased out by him to a tenant at fixed rate of 4 khandies per year.

	Landlord's Share 4 khandies	Land Revenue Rs. 55	Net price Rs. 72	Percentage of Land revenue to income	Fall in ratio	Percentage Rise in net income.
18d. ..	72	55	17	69		
16d. ..	81	55	26	51	$12\frac{1}{2}$	53
12d. ..	108	55	53	26	33	212

It will be seen from the above tables that the cash in the hands of the agriculturist is his resources for purchases of necessities of life other than agricultural products. It is this sum of the sale proceeds of his surplus produce that determines and limits his purchasing power. Against this amount, salt, spices and other articles of absolute necessity are first to be charged and then comes clothing followed by superior clothing and articles of luxury. If Britain desires that her products be purchased by the masses, it is absolutely essential that the agriculturist must secure for their surplus produce sufficient number of coins to pay firstly for the dire necessities and then for clothings and articles of luxury.

(7) Mr. Roy contends that the agriculturist has to buy more things than he produces. It seems surprising that the agriculturists in India should be so misunderstood as to lead men like Mr. Roy to think

think his requirements and necessities of life traverse a large range of products other than agricultural. I have already given a table giving the budget of a rural family and I believe it is a sufficient answer to the statement hazarded by Mr. Roy. That statement will show that not more than 20% of his requirements cover non-agricultural products and I may further point out that every agriculturist maintains himself more or less on his own products to a very great extent and in case of necessity he only exchanges his produce with the produce of his neighbour if at all he does not produce certain foodstuffs. The budget of an agriculturist family in India is mainly the budget of foodstuffs which are the produce of their own lands and cloth and other articles form a very small percentage of about 20.

(8) Mr. Roy has further stated that the wage-earners and men who depend upon salaries or pensions will suffer very much if the exchange is reduced from one shilling six pence to one shilling as it will increase their cost of living while their income will remain stationary.

I do admit that they would be adversely affected by every fall in the rate of exchange. The present level of wages as indicated by the index number for wages which stands at 180 was fixed during the period 1923 to 1927. During this period the level of prices of all the commodities imported and exported was at least twice higher than the present level of prices indicated by the index number of prices for the years 1923. to 1933 as given below :—

I give below a table showing the general index numbers of prices for the years 1923 to 1933 for Calcutta and for Bombay and for the U. K.; Japan and U. S. A. This will prove that wage-earners and salaried men and pension holders are to-day reaping an immense advantage owing to the fall in the level of prices to which they are in no way entitled. So long as the level of prices does not exceed the level of prices obtaining in the year 1923, these people can have no grievances or grounds for complaint against any rise in the level of prices caused by the lowering of the ratio.

STATEMENT I.

Reference Paragraph 5

Index numbers of wholesale prices in India and certain foreign countries.

	India (a) Caloutta	(b) Bombay	(c) United Kingdom	(d) United States of America.	(e) Japan
Annual Average					
1923 ..	172	181	159	101	199
1924 ..	173	182	166	98	207
1925 ..	159	163	159	104	202
1926 ..	148	149	148	100	179
1927 ..	148	147	141	95	170
1928 ..	145	146	140	97	171
1929 ..	141	145	137	95	167
1930 ..	116	126	120	86	137
1931 ..	96	109	104	73	116
1932 ..	91	109	102	65	122
1932 ..	92	110	102	66	116
1932 May .	89	111	101	64	114
.. June .	86	109	98	64	111
.. July .	87	106	98	65	112
.. Aug. .	91	107	100	65	118
.. Sept. .	91	107	102	65	127
.. Oct. .	91	107	101	64	128
.. Nov. .	90	104	101	64	134
.. Dec. .	88	105	101	63	140
1933 Jan. .	87	104	100	61	140
.. Feb. .	86	100	99	60	136
.. March. .	83	96	98	60	134

(a) Indian Trade Journal, 1914. Basis 100.

I may also point out that the scale of salaries and wages in India so far as the Government are concerned is fancifully liberal and as compared to the various countries in the world is much higher than what it would otherwise be. I propose to deal with this point at greater length later on. The industrial workers are today paid on the basis of the higher cost of living obtaining in the years 1923 to 1927. Wages in rural and urban areas have already increased on account of the higher cost of living in the after war period and since then the same are not materially reduced.

For reasons stated above the arguments put forth by Mr. Roy are a gazy of fallacies launched by him without even knowing the facts relevant to the questions to in issue.

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CURRENCY LEAGUE OF INDIA

BULLETIN NO. 14

INDIA'S PROSPERITY: THE RUPEE: AND THE RESERVE BANK BILL.

BY

SIR M. DE P. WEBB, C. L. E., C. B. E.

Author of

"The Great Power" (1897).

"Britain's Dilemma" (1912).

"Indian Finance and Currency" (1914),

"Britain Victorious" (1919).

"The World Crisis" (1932).

&c.

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BOMBAY.

CURRENCY LEAGUE OF INDIA

OBJECTS

1. To encourage and provide facilities for a systematic and impartial study of questions relating to currency, so that a currency policy best suited to the interests of the country may be evolved.
2. To educate and organise public opinion with a view to opposing the continuation of the 18d. sterling ratio as is sought to be done through the Reserve Bank Bill; and to bring about an immediate devaluation of the rupee.
3. To do all other things for the promotion of the above Objects.

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Currency League of India,

BULLETIN No. 14

India's Prosperity: The Rupee, and the Reserve Bank Bill.

BY SIR MONTAGU DE P. WEBB, C.I.E.S. C.B.E.

The following is the complete text of an address delivered to a meeting of the East India Association at the Carlton Hall, Westminster, London S. W. 1. on Tuesday 7th November, 1933 at 4-30 p. m. with Sir John Wardlaw-Milne, K.B.E., M.P., in the Chair.

Just upon twenty years ago the East India Association did me the honour of inviting me to address its members on the subject of "Money Power for India." Those were the days of rising prices and consequent hardships to all small fixed wage-earners; and I therefore pleaded for open gold mints for India in order, amongst other reasons, that a portion of the flood of the precious yellow metal then overflowing the world from the recently discovered gold reefs of the Transvaal might be diverted to India for the benefit of India, and of the rest of the world. I urged also that a Central State Bank might be set up in India, under Government control, of which every Government treasury and sub-treasury could act as a branch at which deposits from the public could be received. Such a development, I argued, would greatly encourage the banking habit amongst India's backward millions, and so add to India's money power and prestige.

That was twenty years ago. Many things, including the most terrible war in history, have happened since then. And now we have been living, not without apprehension, through a period of rapidly falling prices and shrinking trade, with well over thirty millions of people out of employment in various parts of the world. No longer are we threatened by the magnitude of the oncoming flood of gold. On contrary, as a result of the war, two great nations have diverted nearly three-quarters of the world's monetary gold into their own vaults.

leaving but very little over for all the other nations. There is still a talk of a Central Reserve Bank for India, but not so much this time with the object of encouraging the banking habit amongst India's masses as of creating a financial safeguard for the political developments which the statesmen of this country, and of India, seem bent on carrying forward, notwithstanding the economic chaos and impending bankruptcy with which so many countries (including India) are now threatened.

It is of these economic and financial complications in India that I shall mainly speak to-day. When, eight years ago, I gave you an optimistic account of India's material progress to that date, the grave distortion in the purchasing and measuring functions of the rupee—I am referring, of course, to the disastrous collapse of rupee prices—had not taken place. Economically speaking, the prospect was bright and hopeful. But look, what happened after 1924. The index number of wholesale prices dropped from 173 in 1924 to 82 in March last. That is to say that wholesale prices in India fell no less than one-half of what they were ten years ago. Indeed, in the case of food-grains, tea, jute, cotton, oil seeds, hides and skins, and other raw products, the collapse in prices occurred *during the last five years*—a calamity of an unprecedented character.

EFFECTS OF FALL OF PRICES.

At first thought, a general fall of prices—*i.e.*, an increase in the purchasing power of the rupee—may not seem a bad thing. All fixed wage and salary earners, all pensioners, all receivers of interest, and, in short, all creditors, benefit at the expense of employers—private and State—and of debtors. On the other hand, producers of all kinds—agricultural as well as industrial—are discouraged. Reduced or vanished profits, checked enterprise, and a general numbing of the adventurous spirit, are the inevitable results of a prolonged fall of prices. Production is lessened; expenses are cut down; many are thrown out of employment; traders are paralyzed; and trade shrinks. Unemployment increases, producing widespread hardship and misery. Indeed, it has been said that among the many causes of human retrogression—wars, pestilence, famine, bad governments, *etc.*—a long period of falling prices (caused by a relative restriction, or shortage of the

currency), is perhaps the worst because it saps the very sources of human enterprise, deadening the desire to venture, and, by checking the leaders and most go-ahead sections of the community, stops national progress and jeopardizes the position of the whole country.

This is exactly what has been happening in India during the last five years. Here are the figures of India's exports and imports of merchandise since 1928:

	<i>Exports.</i>	<i>Imports.</i>
	(<i>Crores of Rs.</i>)	(<i>Crores of Rs.</i>)
1928... ..	319	250
1929... ..	330	253
1930... ..	310	240
1931... ..	220	164
1932... ..	138	136

Is it surprising, in view of this terrible shrinkage in trade, that the earnings of traders of all classes have dwindled very materially? Combined as it is with a most disastrous collapse of prices (included in the above figures), which has crippled many producers, especially agriculturists, the general effect has been a widespread relapse and loss of capital that has brought thousands of well-to-do firms in sight of bankruptcy, and thrown millions in India out of employment.

ECONOMIC DISTRESS.

It is not generally realized in Great Britain that it was this terrible fall of prices of the last five years that made Mr. Gandhi's boycotting campaign possible. Our difficulties in India have been largely stimulated by economic distress rather than by political dissatisfactions. The calamitous fall of prices in India has dragged down wealthy agriculturists and rich town merchants, and left thousands of the town-educated youth without employment or any likelihood of obtaining employment. Of course, Government are blamed for everything. And not without some reason in this matter of the gross distortion of the rupee, which is what falling prices mean.

Moreover, it is not merely individuals, or individual concerns, who have come to grief during the last five years. Local bodies—municipalities and port trusts—are, for the most part, finding it almost impossible to make both ends meet. The State railways are now reduced to a condition of chronic deficits; whilst Provincial Governments (Madras and the Punjab excepted) are experiencing great difficulty in adjusting income to expenditure. Even the Government of India itself has not been able to escape from the general depression. Government's finances are in a parlous condition, expenditure having been cut and cut; whilst revenue, which has been augmented to the very utmost, now includes (a) heavy duties on practically all imports (even on food for the people—wheat, sugar, spices, and salt), and (b) outrageously unsound export duties on hides and skins, which fall on the very poorest of the poor. Even so, the Indian Budget can only be balanced with difficulty. And now the Law of Diminishing Returns is operating, and Government's revenues are shrinking in some directions.

This, then is the condition of India today—a land of abundance, yet a land of terrible economic distress. This is the land in which (1) the rupee is overrated, in relation to sterling; and (2) it is now proposed to establish a Central Reserve Bank to take charge of India's monetary system; to help Government with its finances; to safeguard the interests of all debtors, and all creditors, and generally, to see that the great mass of the people have a proper supply of good honest purchasing and measuring tools.

THE NEED FOR A RESERVE BANK.

It is high time that an institution of this character was established in India, for India has been quite the most unfortunate part of the whole Empire so far as the management of her monetary tools and foreign exchanges are concerned. In the beginning, just as in Great Britain, India used to employ money of silver and money of gold. (At one time, in 1800, India's gold pagodas were legal tender in New South Wales). The East India Company eventually decided however, that the silver rupee was the most suitable money tool for all India. At the time, their Proclamation of January 13, 1841, in-

structed their treasuries to accept, as well as rupees all gold mohurs that might be tendered. Then came the wonderful gold discoveries of California and Australia. The world's annual output of gold doubled and trebled, till, in 1852, over $\$30,000,000$ of new gold was unearthed. Government became alarmed. On December 25, 1852, a Notification was issued that no more gold coins would be accepted in India. In vain the Bombay Association (representing the Chambers of Commerce of Bengal, Bombay, and Madras) memorialized the Government of India in 1864 for a gold currency for India. In vain the Bank of Bengal, in 1865, urged that the British sovereign and half-sovereign might be made legal tender in India for ten and five rupees respectively. On May 17, 1865, the India Office, wrote that it did not see any advantage in admitting British gold money as legal tender in India. And that, too, when supplies of gold were ample and increasing yearly.

Alas for human wisdom! Within ten years the Government of India began to wish that British gold had not been so completely barred from the Indian currency. In 1878 the Government of India openly expressed their desire to adopt a gold standard. The divergence between the relative values of the precious metals which had commenced to show itself in 1873 (when Germany, having extracted £200,000,000 indemnity in gold from France, discarded her own silver currency), gradually became greater, till, by 1890, the gold price of silver had dropped from sixty pence per ounce to below 44 pence per ounce, causing the Government of India, whose revenue was collected in silver rupees, but whose annual liability for "Home Charges" had to be paid in gold, considerable anxiety. The Government of India's remedy (or perhaps I should say Sir David Barbour's remedy, Sir David being Finance Member of the Government of India at that time) was to endeavour to arrange a bi-metallic agreement with the United States of America for the coinage of both silver and gold at a ratio of 15½ silver to 1 of gold, which would have restored the old ratio, and the gold price of silver and so eased India's budgetary difficulties.

Up to this point the refusal of the India Office to allow India to enjoy the advantages of a gold currency, in spite of the appeals of the commercial public in India, may be regarded as a pardonable error of

judgment. But after 1890 the management of India's currency and finances by the India Office became so erratic and so neglectful of India's best interests, that I can but concur with the repeated condemnations of it uttered by well-informed critics in India—Indian as well as European.

GROUND FOR CRITICISM.

A brief summary of the leading incidents and criticisms of recent years will explain this:

1893. The Indian Mints were closed to the free coinage of silver—India's chief currency metal—under the delusion that silver was seriously depreciating; whereas the truth was that, for the most part, it was gold that was dangerously increasing in value (exactly as it has done during the last five years). This blunder would have half paralyzed India (by intensifying the fall of prices) but for the accidental discovery in the Transvaal of the largest supply of gold ever known.

1905-7. The Government of India carried out the largest coinage of silver ever known in any country—£44,000,000 worth of new rupees, notwithstanding the fact that Government was then committed to the establishment of a *gold standard and a gold currency for India*, on the accepted recommendation of the Fowler Committee of 1896.

1910-12. India was deliberately prevented from importing as much gold as she would normally have taken by the quite unnecessary selling of rupees by the India Office at too cheap a rate. This policy led to the unnecessary transfer to, and accumulation in, London of over £35 millions of India's reserves and cash balances—a scandal which caused the appointment of the Chamberlain Commission of 1913-14, who condemned these irregularities. After the publication of the Commission's Report, the matter was put right.

1919. The Easington Smith Committee recommended that the exchange value of the rupee be fixed at ten rupees to the pound sterling, instead of the fifteen rupees at which it had stood for nearly twenty years. Mr. (now Sir) Dadiba Merwanjee Dalal, one of India's most experienced bullion dealers and financiers, and a member of the Committee, wrote a minority report strongly dissenting from his colleagues' recommendations. Subsequent events have proved Sir Dadiba to have been quite right in dissenting.
1920. The India Office, in a period of temporary mental aberration—no other words accurately describe it—ordered, unasked, on its own initiative and in face of almost daily protests, the sales by the Government of India of British pounds sterling at rates as low as seven rupees, pending the fixing of exchange at ten rupees—a folly without parallel in currency history, which inflicted on the State a loss of over thirty crores of rupees. Private losses were even more.
1926. The Hilton-Young Commission, against the advice of many responsible and experienced authorities, including the East India Section of the London Chamber of Commerce, recommended the sterling value of the rupee to be fixed at thirteen and one-third rupees. This recommendation was made on the assumption, now universally recognized to have been incorrect, that price levels in India and the West had settled down to a parity that could be relied upon as fairly stable. Whereas, as all know, India, Europe, and America have, since 1926, experienced the worst collapse of prices on record. This fact, coupled with the sterilization of three-quarters of the world's monetary gold by France and the U.S.A. has made the Hilton-Young Commission's recommendations quite unsound, and so worthless. Sir Purshotamdas Thakurdas, a member of the Commission, protested most strongly against this thirteen-and-a-third rupee ratio. Subsequent events have proved that Sir Purshotamdas was quite right in protesting.

OVERRATED CURRENCY.

And so we arrive at the present time. India today is the only country in the world whose currency, after the Great War, was deliberately overrated instead of de-rated. Whilst the principal nations of Europe have tried to snatch temporary advantages from competitors by aid of their de-rated currencies,—whilst Great Britain itself, thrust by force off the gold standard, has also derived advantages from its de-rated pound sterling, India, staggering under the effects of the worst fall of prices in history, has had the blow not softened but made more painful and unendurable by the overrating of her currency, which has tended to increase the fall of prices instead of alleviating it.

The following extract from a letter from Major D. Vanrenen, President of the Punjab Zemindar's Union, that appeared in *The Times* of October 12, 1933, emphasizes this point:

"There was a time, only five years ago, when the leaders of the Punjab zemindar community, which has an unsurpassed record of loyalty to the British connection, and supplies 70 per cent. of the Indian element in the Indian Army, were opposed to rapid (political) advance in the centre and would have been content with autonomy in the provincial administrations. That time is past, and in recent years they have become as eager as any other element in India, for India as a whole, to secure self-governing institutions at an early stage. The reason for this change of mind has been the growing perception that the control by successive Secretaries of State over India's economic policy has been definitely injurious in its results to Indian agrarian interests."

The writer then quotes the hardship of India having to face the world depression with a 1s. 6d. instead of a 1s. 4d. rupee, and contrasts the position of zemindars in India with that of farmers in Australia and New Zealand, who, in addition to other local aids, have been assisted by a depreciated Australian and New Zealand pound.

I ask you to bear these facts in mind in considering the conclusions at which I shall shortly arrive, and the policy that I shall presently advocate.

THE RESERVE BANK BILL.

A Bill to establish a Central Reserve Bank in India was introduced by Sir George Schuster in the Indian Legislative Assembly on September 8 last. This Reserve Bank is about to be set up in order to "ensure confidence in the management of India's credit and currency" and to "secure monetary stability in India," very admirable and much-to-be-desired objects. It may be convenient if I explain briefly what the functions of a Reserve Bank are, or should be. Ordinarily a Reserve Bank is first and foremost a banker's bank. It plays the same part towards all the banks in the country as each of those banks does towards its clients and customers. It sees that the supply of currency—metallic and paper—is adequate to the needs of the country, and in this connection maintains, or should maintain, the stability of the internal level of prices and also, as far as possible, of the foreign exchanges. It exerts a controlling influence over the country's credit, and watches over the maintenance of the country's monetary standard, whatever it may be—silver or gold, or both.

In the case of India, the Central Reserve Bank should be the Government's bankers, because Government's financial operations are on such a large scale that they would interfere with the ordinary finances of the country if carried on independently of the country's Reserve Bank. This means that the issue, service, and redemption of all Government loans would be managed for Government by the Reserve Bank; also all the Government Savings Bank business. The remittance to London of the Government of India sterling liabilities should be managed by the Reserve Bank. In short, the Reserve Bank, with whom all other banks in India would, no doubt, find it in their own interest to open accounts, could, in addition to facilitating the work of those banks, act, by way of the directors, as a supreme financial council, with whom Government would ordinarily keep in close consultation at all times.

CRITICISMS.

All this would be ideal; and, if properly carried out by the new Reserve Bank of India, would be of material assistance to Government, to the existing banks, and to the great mass of the peoples of India. Much depends, however, upon the translation, in practice, of the word "properly." Unfortunately, the Bill, as placed before the Assembly at Simla in September last, exhibits certain very objectionable features—the consequence of copying, too slavishly, Bank of England practices, which have been built up in circumstances wholly different from those of India. To begin with, the Reserve Bank of India Bill proposes, following the Bank of England pattern, wholly to ignore the existence of silver as a money-metal; and that too, notwithstanding the fact that in the case of India, silver is the natural money of the country, as well as of all Asia and most of Africa. It is even proposed by the Government of India that India's Reserve Bank shall not be allowed to buy or sell silver, if it elects to trade in gold (clause 17, sub-clause 11 (a)). But the public will not forget that as a direct consequence of the gold monometallism of the Bank of England, that Bank has had to suspend cash payments on no less than five occasions, the last time being in September, 1931, amidst conditions of widespread economic crisis. There are good reasons for concluding that this British attempt to restrict the monetary operations of the whole world to a one metal standard is the root explanation of most of the economic crises of the last and of this century. And yet the Reserve Bank of India is now asked to repeat the monometallic blunder.

The second defect is the proposal to reproduce the century-old idea of dividing the Bank's operations into two branches—a Bank note issue department, and an ordinary banking department which, in the case of the Bank of England, was simply a concession to the lack of experience of our great-grandfathers. The public of a hundred years ago, not being familiar with large issues of notes by a Central Bank, thought that golden sovereigns were held, or ought to be held, in the Bank's vaults against every note issued by the Bank. To reproduce today a separate note issue department in the Reserve Bank of India is an anachronism, made doubly absurd by the fact that it is proposed that India's Reserve Bank

shall hold against its note issue Government securities, foreign securities, and private bills of exchange some not payable in India! in addition to rupee coins and gold bullion, but not any silver bullion, the moneymetal of the country!

The third objectionable feature is the provision in the Bill (Clauses 40 and 41) to compel the Bank to buy and sell British paper sterling *in unlimited quantities*, at approximately 1s. 6d. per rupee—a rate that is $12\frac{1}{2}$ per cent. above the normal that was maintained for practically twenty years before the conclusion of the Great War. The Bank of England is not compelled by law to maintain Great Britain's foreign exchanges at any particular level—natural or otherwise.

A fourth objectionable provision in the Bill is Clause 42, coupled with Clause 17, which first compels sixty-nine selected Banks in India to deposit from $2\frac{1}{2}$ to $7\frac{1}{2}$ per cent.—surely too heavy a percentage—of their "time" and "demand" liabilities, free of interest, with the Reserve Bank, and then enables the Bank to compete with its own compulsory clients in almost every department of ordinary banking business! The Bank of England has no such unfair advantage as this.

For the rest, I need only say that the idea of introducing a Central Reserve Bank into India is undoubtedly a good one. The wisdom of making it a shareholders' bank (rather than a State Bank), in order to safeguard India's currency and finances as far as possible from political interference, external and internal, is also, in my opinion, beyond question. And provided that the new Bank be run in India, for India, by Indians—I mean residents of India, be their colour, race, and religion what it may,—this end will probably be successfully attained.

A SILVER-USING COUNTRY.

But India must not, through her new Reserve Bank, be shackled with the mistakes of the West. Gold has now definitely broken down as a good monetary measure; and India is being reduced to bankruptcy by the stubborn prejudice which still persists in attempting to link her thoroughly good silver rupee to the now uncertain paper pound of Great Britain, and at a fancy rate for which there is not the slightest

justification. India must seize the present opportunity to engineer her own recovery by insisting that she is a silver-moneyusing country. (A silver monetary standard will enable her to compete successfully with Japan, China and the whole world.) Pending an agreement with the United States of America and other countries to reopen their mints to the free coinage of silver, I urge that the normal rate of exchange of 1s. 4d. be now restored. No longer should India's trade be in any way handicapped, even temporarily, by this wholly indefensible rate.

THE RUPEE STANDARD.

The silver rupee, which the Honourable East India Company a hundred years ago considered to be the most suitable monetary tool and measuring standard for all India, is I submit, still the most suitable purchasing tool, measure of value, and store of wealth for most of India's 350,000,000 of peaceful and industrious workers. Not until Western financiers and theorists interfered with this excellent coin was its value distorted to any serious extent. It purchased what the people wanted, and served quite satisfactorily as a savings certificate for people in localities and stations of life where other forms of saving were not suitable or indeed possible. If there is one blot on Great Britain's Government of India, it is that unfortunate, shortsighted, anti-silver legislation from 1893 onwards which has, in effect, deprived millions of India's relatively poor country-folk of most of their savings. I only pray, for this country's sake as well as for the well-being of India, that Providence will soon dispel that insular British prejudice which still persists in depriving many of its best customers in the tropics and in the East of their purchasing power by legislating against a metal that not only the peoples of the tropics and the East, but one-half of the population of the whole world, likes and uses as money.

Not until silver is restored to its old legal position can this gold-starved universe enter upon another period of abounding prosperity. Let us, therefore, raise our voices with greater determination than ever before, and insist that India shall be allowed to proclaim her willingness to reopen her mints to silver, provided other silver-using and silver-producing nations will do the same. Senator Pittman has already urged President Roosevelt to allow the silver States of the great Republic to

send their silver to the U. S. mints for conversion into full, legal-tender dollars; and I shall be very surprised if the President's National Recovery plan can succeed without a substantial increase of metallic money of this character. Let us, therefore, stick to our good old silver rupee, and work out our salvation in the way that we, who have used silver money all our lives, know to be possible.

A ONE-METAL STANDARD CONDEMNED.

As for the Reserve Bank of India, it is a good and sound scheme for the better organizing and strengthening of India's monetary machinery. As at present designed, it is calculated to withstand any local or external attempt to manipulate the nation's purchasing and measuring tool at the expense of the public. In only one matter is it necessary to utter a word of caution. And that is against any acquiescence in the suggestion that India should look forward to building her future monetary machinery on a one-metal (gold) basis only.

The latest and most authoritative work on the subject of Reserve Banks is *The Art of Central Banking*, by Mr. R. G. Hawtrey, a British Treasury official. I need hardly say that Mr. Hawtrey, is a monetary specialist of the very first rank, and his views command my greatest respect. He considers that a Reserve Bank should regulate credit, which function, of course, involves the regulation of money. But in regulating money, Mr. Hawtrey appears to have in mind only gold money, plus paper money based on gold. Or perhaps it would be more accurate to say that as the activities of the Bank of England during the last century form the main groundwork on which Mr. Hawtrey builds and as England used only gold as the basis of its monetary system during that period, the reader insensibly receives the impression that gold is an essential part of the central banking system, as indeed it was, in England. But in developing the practice of central banking in parts of the world where silver money is largely used, we must apply the principles which Mr. Hawtrey so ably expounds, to silver money, and silver reserves which have played, and can play again, just as useful, and just as important a part in the tropics and elsewhere as gold

has done in England. Indeed, it is urgently desirable in my opinion, having regard to monetary conditions to-day in Europe and America, where gold, owing to a world-wide loss of confidence, is being hoarded to an unprecedented extent, both by Governments and individuals, that silver be re-habilitated as soon as possible, so as to afford an additional metallic basis for the world's money. In the meantime, I urge all who are concerned with the introduction of central banking into India, to study Mr. Hawtreys' latest work,

GOLD-MONOMANIA.

The Central Reserve Bank of India must on no account allow itself to be poisoned at the start by the gold-monomania that has infected so many of the financial and banking groups in the West. For, if it harbour this insidious delusion, its freedom will vanish; and it will find itself in the future, as it has so long been in the past, a mere subordinate of the great monetary powers of the West, to whose follies Mr. Hawtreys himself attributes the recent deadly shrinkage of prices and the present world-wide economic and financial crisis. India's Reserve Bank must encourage the recognition and use of both precious metals, but preferably silver, so long as the present gold-monomania of the West persists.

For India's prosperity now and for many years to come there need be no anxiety, provided only that her peoples be given a fair monetary chance, which they are not receiving at present. The air today, particularly in England, is thick with political strife. But the pursuit of politics alone has never brought any country prosperity, and is not in the least likely to do so in the case of India. Even the famous Report of the Simon Commission upon which our "No" politicians so fully rely, omits, to consider, or even to refer to, India's vast trade and industry, upon the successful conduct of which everything else, including government's revenues, statemen's salaries, and politicians' pay, directly depends.

Still, India is thoroughly sound, economically, provided she be allowed unrestricted fair-play. She is practically self-contained. Her huge, industrious population can produce ample surpluses of good

things wherewith to pay her debts, internal and external, interest and capital. But in carrying on her daily work she must be allowed to use such monetary tools as are appropriate to her own needs, and not the monstrosities in the way of London-controlled, elastic standards that have been forced upon her in recent years. Further, the manufacture, issue, and management of those tools, including the reopening of the Indian mints to the free coinage of silver must be placed in the control of brains resident in India, and concerned first and foremost with India, and with India's present welfare and future prosperity.

“ Granted the restoration of India's full-value silver rupee and the establishment of a self-governing Central Reserve Bank, I feel confident that India's prosperity will return, and will be assured for many years to come.

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CURRENCY LEAGUE OF INDIA

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BULLETIN No. 15

**THE FINANCE MEMBER
AND
THE RUPEE RATIO.
(BY WATCHDOG.)**

**JEHANGIR WADIA BUILDING
ESPLANADE ROAD, FORT,
BOMBAY.**

CURRENCY LEAGUE OF INDIA

OBJECTS.

1. To encourage and provide facilities for a systematic and impartial study of questions relating to currency, so that a currency policy best suited to the interests of the country may be evolved.
2. To educate and organise public opinion with a view to opposing the continuation of the 18d. sterling ratio as is sought to be done through the Reserve Bank Bill; and to bring about an immediate devaluation of the rupee.
3. To do all other things for the promotion of the above Objects.

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Currency League of India.

Sections 40 and 41 of the Reserve Bank Bill impose on the prospective Central Reserve Bank the duty of selling sterling in amounts of not less than ten thousand pounds for immediate delivery in London at a rate not below 1s, 5 49/64d per rupee and of buying sterling in amounts not less than ten thousand pounds for immediate delivery in London at 1s 6 3/16 per rupee. The effect of these two sections is to give statutory sanction to the present exchange ratio of 18d to a rupee, and the statutory sanction, which these sections if enacted will give, will be of a far more immutable character than the Currency Act 1927 gave to the 18d gold ratio. The Hon'ble Finance member is wrath at this suggestion. Said he with reference to this:—

"I must emphasise that this is a Bill to create the machinery of a Central Bank for India, not a bill to deal with the ratio. Clauses 40 and 41 relating to the ratio are merely incidental. They indicate the present position on which the machinery of the Bank is to be superimposed. We cannot regard the ratio as arising on this measure at all. If we had thought that our introduction of the Bill would be made the occasion for attempting to revise the present position, we should have never introduced the Bill. The question we have to put is whether the legislature wants a Reserve Bank, not whether it wants the present ratio. We do not seek to get any new confirmation of that from the legislature. That already has statutory force and we do not seek or need to strengthen it."

The indignation of the Finance Member can, however, not determine the meaning of a statute nor can emphasis expressed by him in a speech negative what the wording in a bill affirms. The sections 40 and 41 mention a certain ratio in specific terms and leave no room for the suggestion that they are merely incidental. These sections have

to be read in conjunction with Section 54, which even may be styled merely incidental' by the Finance Member. Unfortunately for Sir George Schuster there is no difference as regards statutory efficacy between 'merely incidental' sections and substantive sections. The Bank is to 'be entrusted with the management of currency and exchange' and section 54 proposes to repeal the present Currency Act. The Reserve Bank Bill when enacted into law will be of a different character from the present Currency Act, inasmuch the new Act will not be open to amendment by the new Indian Legislature without the previous sanction of the Governor-General given at his discretion. (vide sec. 199 of the White Paper). The Government of India may not seek to get any confirmation but they are surely trying to perpetuate the statutory force which 18d ratio already has. It is not the Indian public who can be accused of exploiting an adventitious occasion. The Indian public are only reacting to the Government of India's attempt to perpetuate through an extraordinary piece of legislation a position which may have statutory force but has never had the support of the majority of Indians. If Sir George Schuster will be rational, he has to so change the wording of these two sections as to leave the rate of exchange to be determined by the Government of India or the Federal Legislature. Then alone can he say with justification that the Government of India 'do not seek to get any confirmation of the present ratio 'from the legislature.'

Sir George Schuster must have a poor idea of the intellectual capacity of the members of the Assembly and of businessmen if he expects to succeed in sidetracking them by drawing distinctions between incidental provisions of an Act and substantive ones or by putting some alluring words in the preamble or by giving oral assurances on the floor of the Assembly. Under the White Paper Scheme the Governor-General is going to be an entity apart from the Federal Government even in his executive capacity. No oral assurance given on behalf of the present Government of India can be taken to be enough to bind the Governor-General exercising his special responsibility for what is ominously expressed in the words "the safeguarding of the financial stability and credit of the Federation," in the discharge of which he will not be guided by the advice of his Council of Ministers but will have

an independent Financial Adviser. As a matter of fact, the present Government of India are attempting through these two sections to take away with the left hand a large slice of that limited fiscal and financial autonomy which will be conferred on the Federal Government with the right hand. It is necessary that the Assembly should see through this attempt and refuse to be either bullied by the threats or bamboozled by the emphasis and assurances and explanations of the Hon'ble Finance Member of India.

India is mainly an agricultural country, in which about seventy percent of the population depend for maintenance on land. India again is governed by a highly industrialised country and, therefore, has to maintain an AI administration on C3 resources. The salary Bill of her foreign servants is a huge sum, of which a large portion is remitted to England for several purposes besides the whole amount of the pensions payable to the retired. Foreign Capital has been invested in India on which interest has to be remitted to England and other countries. Again there are large amounts to be paid for what go by the name invisible imports? Goods are exported from and imported into India in foreign ships with the result that Freight, insurance and interest have to be paid by India. To meet all these obligations India has only one means, viz., the export of raw materials. As a simple business proposition Indian exports must exceed her imports in value by at least the amount of her foreign obligations enumerated above. And to achieve this result India has to make it worth while for other countries to purchase her raw materials. India must, therefore, be a good country to buy from, as a matter of sheer necessity and it is an elementary economic rule that a country with a high exchange is not a good country to buy from.

The modern markets are world markets and the prices of raw materials cannot be quoted in rupees. Owing to the peculiar position of India vis-à-vis Great Britain a large part of our exports go to that country. The share of the British Empire in the case of exports was 45.5 per cent in 1932-33. Again even in India's dealings with other foreign countries she is limited in her freedom to quote prices by the linking of the rupee to sterling. If Russia offers a certain amount of wheat for £1, India

has to offer the same amount of the same quality of wheat for £1. The same rule applies to almost all commodities. Even in the case of a commodity like jute, for which we claim a monopoly, experience has taught India that the monopoly can be challenged and that the price of jute is affected by the change in the prices of Cotton. We are not able to say "we have got 2 million bales of cotton and we shall take five and twenty crores of rupees for the same." We have to sell the same for such prices in sterling as will secure customers for the same in open world market and have to be satisfied with the amount of rupees we are able to have in exchange of the sterling at the present ratio (*viz.*, 18d to a rupee). The level of exchange was of no account to the Indian Exporter so long as his goods were in demand, irrespective of the prices, or in the absence of effective competition. But the moment a fall occurred in the demand or effective competition entered the field, a high rate of exchange became a cause of the gravest apprehension to the export trade of India. Two or three quotations from the latest Review of the Trade of India will be apposite to this exposition :—

"On the export side the outstanding feature was a further slump in the raw cotton trade due to comparatively high prices of the Indian staples. Despatches of raw cotton fell from 2,369,000 bales valued at Rs. 23 crores to 2,063,000 bales valued at Rs. 20 crores."

"The comparatively high parity of Indian cotton led to its gradual replacement by American cotton in Japan and in the orient in general. The world consumption of Indian Cotton for the 12 months ending January 31, 1933 amounted to just over 4 million bales and was far short of the normal annual consumption of 5½ million bales. The high parity thus discouraged the consumption of Indian cotton abroad. Consequently exports of Indian cotton decreased in the year under review as compared with the preceding year and 1932-33 gave the lowest figure in the post-War period."

In his authoritative work "Sixty years of Indian Finance" Prof. K. T. Shah pointed out that a rise in exchange entailed a loss on the Indian producer. "There can be no dispute that the rise in exchange

would hurt the prospects of the export trade." (page 435). This is a point which is crystal clear to those Indians who have anything to do with export trade but is not understood by men in the street or even by those whose knowledge of economics is only theoretical. Therefore it has become necessary to quote the testimony of an authority on the science of economics and the practical corroboration thereof supplied by the document published under the authority of the Government of India viz., "the Review of the Trade of India in 1932-33."

The principal exports of India are Raw Cotton, Tea, Oilseeds, Jute, Hides and Skins and Pig Iron. All these except Tea (the price of which was materially lowered) show a decline in 1932-33 as compared to 1931-32. India cannot raise the sterling rates of these commodities if she wants to keep up her exports. And without a favourable balance of Exports over Imports India cannot discharge the foreign obligations which have been above enumerated.

The same Trade Review points out another well-known fact that raw materials have fallen much lower than industrial products. The fall in the agricultural income for all India amounts to a little over 47 per cent. "The comparative position can best be understood when it is realised that the fall in March 1933 on the export side was 47 per cent while that on the import side was 22 per cent. Side by side with this, a comparison of the Index numbers of India and of Great Britain, (or United Kingdom) will be worth making.

(The Index number is 100 for both these countries in 1914.)

	1929 Sept.	1930 Sept.	1931 Sept.	1931 Dec.	1932 Sept.	1933 May
India	143	111	91	98	91	87
United Kingdom	135.8	115.5	99.2	105.9	102.1	99.2

The fall in the index numbers of India is much greater than of the United Kingdom. "The prices of agricultural commodities have fallen to a much greater extent than those of manufactured goods" (*vide* page 10 of the Trade Review). Even with such a reduction (*viz.*, 47 per cent)

in the income of the agriculturist the exports for the year 1932-33 were only valued about rupees 136 crores as compared to over 160 crores of rupees for the year 1931-22. The balance of trade for the year 1932-33 was only three crores as compared to thirty-four crores in 1931-32. Even in quantities there is a decline in respect of almost every commodity except tea. There is absolutely no chance for the agriculturist to get higher sterling rates for his primary products. It is a proposition now admitted on all hands that the purchasing power of the agriculturist must be raised if India is to be saved from a financial catastrophe. To quote from the Trade Review once more "As the bulk of the population in India lives on agriculture" the reduction in the income of the cultivator "has a very important bearing on the purchasing power and the economic welfare of India as a whole."

The British Government are never tired of calling themselves the trustees and friends of agriculturists. Any step which is calculated to put a few more rupees into the hands of these agriculturists should be warmly welcomed by their officers in India if this claim is not to be belied. The principal liabilities of the agriculturist are fixed in money unlike the old Indian liabilities which were fixed in crop shares. Rent as well as interest on debts are thus fixed in cash irrespective of the cash price of agricultural commodities. They can buy the necessities life beyond what each of them produces himself only with what surplus balance is left with them after meeting all these fixed cash payments. Their capacity to meet all these fixed cash liabilities is determined by the amount of rupees they can get for the commodities they offer for sale. Now the sterling rates of all these commodities are determined in the world markets by world factors. With the sterling rate so determined the only method which will put more rupees in the pockets of agriculturists is to lower the exchange ratio, that is, to pay them fifteen rupees for every pound sterling instead of the present thirteen rupees five annas.

Call this an alteration of the distribution of wealth if you please, but if it is going to help the agriculturist, it must be brought about. Sir George Schuster is quite wrong in saying that in the process of this distribution the cultivator would be the man to suffer unless, of course,

he is also going to suggest that "the man to suffer by" any "process would be the cultivator". The man, who makes such a suggestion, must be living in a bygone age. The experience of those, who know anything of the facts of the day, is that any variation in prices in the big trading centres is known in the remotest agricultural area and, by the most backward cultivators within a very short time. The European rulers of India have very great faith in the robust commonsense and average intelligence of the Indian cultivators. With these two qualities they will know how to derive the proper benefit from what Sir George Schuster has been pleased to call only an alteration in the distribution of wealth.

Apart from the rise that will occur in his purchasing power, the agriculturist will be a gainer in another and more intimate sphere. The agricultural indebtedness in India has been measured in a colossal amount. One estimate is 900 crores, another is higher. These debts were incurred when the rupee was worth much less in commodities than now. The burden that the agriculturist has at present to bear in the way both of principal and interest, mainly interest, is out of all proportion to the just reality of the creditor's claim. An alteration in the distribution of wealth can, in such a case, be the means of as much needed relief. The amount in rupees being inflexible, any means which clips the wings of the soaring rupee will be a great help to the agriculturist who has been hit by the soaring of the rupee. Lowering the value of a rupee from 18 pence to 16 pence will, therefore, be a great help to the Indian Agriculturists. He will have more rupees for the commodities he sells. The cash payments he has to make being fixed, the balance with him will increase.

All Governments have of late put through large conversion operations in connection with public debts but Indian agriculturists cannot do anything of the kind. Neither is the Government of India going to reduce the amount of agricultural debts by any legal enactment. Let the Government do at least this little bit towards reducing the unfairness of the burden imposed on the agriculturist by debts measured in rupees and incurred when a rupee's worth was lower than at present.

This point cannot be left without answering an objection that is raised apparently in the interests of the agriculturists. In raising this objection the objectors also mix up what they call consumers with agriculturists. Say they that devaluation of the rupee will put up the prices of all commodities in India and particularly of the imports. In arguing this point two assumptions are made: first, that the agriculturists can buy more than they sell and that the consumers are a class apart from the producers. Anyone with a modicum of intelligence and honesty will admit that not only seventy per cent who are agriculturists but about ninety per cent of the population of India have to produce more than they can consume. Any measure, therefore, that raises the prices of all commodities will be a boon to them. These ninety per cent *vis.*, the producers, on whom the Government depends even for its maintenance, have to produce for themselves for the remaining ten per cent of the people and also for the foreign obligations.

In no country are the consumers and producers classes apart from one another. Most of the producers are consumers and *vice versa*. Nobody can ordinarily buy without selling. And when a producer gets a good price for his wares, he does not mind paying a good price for what he purchases. It is always a better proposition that a man has five rupees in his pocket and has to purchase dear goods than that a man can purchase cheap goods but has no money in his pocket. No exchange ratio, or for the matter of that no economic arrangement is to be justified on the ground that it suits the unproductive ten per cent, the absentee landlords, the idlers and the parasites or even the salaried state-employees.

A depreciated rupee will make imports dearer. Who can say that this is an evil from the national point of view? Dearer only internally, let it be noted. As a probability it may be maintained that even this won't happen; but for the sake of argument let it be granted. How many imported things have been made dearer by the imposition of revenue customs and of tariff duties? And have these things not been made dearer in the interests of our country? Take one commodity *vis.*, Sugar. In 1929-30 the imports of Sugar were 940,000 tons. In 1930-31 imports of foreign sugar amounted to over 1 million tons.

In 1931-32 the imports were 556,000 tons. In 1932-33 they were 401,000 tons. During 1933-34 the imports are going to be still lower and according to Sir George Schuster himself "the forecasts now are that by 1935 Indian manufacturers will be producing all the sugar which India can consume." To bring about this state of affairs, imported sugar had to be made much dearer than it was. And the Government of India imposed on every hundredweight of sugar imported into India the duty of Rs. 9-1. Roughly sugar was made a hundred and fifty percent dearer. The depreciation of the rupee from 18d to 16d will not make things more than 12½ per cent dearer and even this is problematical. For a country like India with her foreign (external) obligations and industrial backwardness dear imports in general are a blessing. (There may be some exceptional imports which may be treated differently). If we buy smaller quantities of foreign commodities our obligations to other countries will be reduced and we shall have a better balance of trade in our favour, even if we are not able to improve our exports. Even Sir George Schuster had to admit that "it is a fairly wellknown experience that when any sudden drop in the value of a country's unit of currency is made it tends to stimulate exports from that country and to diminish imports but that is a very temporary effect. It can offer no permanent solution." Sir George Schuster has also had to admit that there is prevailing at present a general 'disorganisation of the monetary systems of the world, and therefore "it is not possible to determine what will be suitable as a permanent basis for the Indian monetary system." Admitting for the sake of argument that the devaluation of the rupee 'can offer no permanent solution', Sir George Schuster's own remedy is also not a "permanent" solution. When both propositions are of temporary efficacy, the balance of advantage must determine which should be accepted. In the present 'disorganisation of the monetary systems of the world,' some measure has to be adopted which will be to India's present advantage. When England went off Gold Standard, she did not do so never to return to Gold but to meet the present circumstances. The other countries that went off gold also did the same to find a way out of the 'present' impasse. If there was nothing wrong in depreciating the rupee in company with sterling in September 1931

there can be no question or point of principle in depreciating the rupee in comparison with sterling.

In his speech in the Assembly on 30th November, Sir George Schuster expressed some elementary dicta !

“There are no magical remedies possible in this world. You cannot make something out of nothing. You cannot increase the country's wealth by merely changing the value of the unit of its currency. All you can do is possibly to alter the distribution of that wealth in the country.”

We are accustomed to read thoughts like these in propagandist communications or in theoretical disquisitions on economics. When these words fall from the lips of the Finance Member of a great country's Government, one rubs one's eyes and pricks one's ears. Sir George Schuster has missed his audience and his place. He should have addressed these words to the British Government or to the World Economic Conference. The primary wrongdoers in this matter are not the Indian public men.

Did England not change the value of the unit of its currency ? Two years have elapsed since then and the Treasury returns, Import Export figures and the unemployment statistics combine to show a steady improvement in the financial position of England. Several other countries including Japan, Norway, Sweden, Canada, Australia, New Zealand changed the value of the unit of their currency and saved themselves from financial disaster. United States of America has done the same thing most recently and what has happened there may best be expressed in the words of Mr. Bingham, American Ambassador in London. Said he :

“The United States have reason for profound thanksgiving at the present juncture. From a state in which Industry was paralysed, the banking system prostrated and a whole people on the brink of despair, the whole situation has now changed in a few months since March for the better. Paralysing fear is now replaced by hope and courage. Everything now indicates a substantial progress towards the return to normal prosperity.”

If England and America could "make something out of nothing," could "increase the country's wealth by merely changing the value of the unit of its currency," Sir George Schuster and others of his way of thinking have given no cogent reasons to demonstrate that India alone of all countries of the world cannot do what England and America could. It may be natural for Sir George Schuster to believe that when the cue for depreciation comes from England it is a right course, not otherwise. Indians cannot be expected to share his belief. Just now India is asking that same dose of tonic which reinvigorated England and America and if Sir George Schuster refuses to supply the same on high moral grounds, he is only exposing himself to the accusation hurled at him in the Assembly by Sir Cowasji Jehangir who told the Government of India that by maintaining the ratio at one and six they were arousing suspicion as regards their bona fides and would, if they continued that course, estrange the loyalty of thousands.

Sir George is not unaware of his vulnerability and proceeds to fortify himself with a show of earnestness and suavity. He appealed to the Assembly:

"In the first place, I would ask him and I would ask the whole House to realise, as I am sure that in their minds they really do, that we on this side in maintaining a particular policy are neither crass fools nor wicked knaves. I think they should do us the credit of assuming that in taking the line that we have done we have been influenced by serious considerations."

As to the serious considerations, Sir Cowasji has given the answer. With reference to the choice offered by Sir George, it is not as if he must be either a crass fool or a wicked knave. In loving his pet ratio more than the prosperity of India, he is the twentieth Century counterpart of the well-meaning tyrant of the Proverb "who loved his sow better than his son."

With Sir George Schuster there are some Indians, theoretical economists among them, who look with horror on what is called manipulation of currency and exchange. These are apparently knowledgeable men. They recognise that currency has only token value and talk

of adjustment of pricelevels. Now, what is the history of this rupee exchange? "The whole currency question", to quote the words of Prof. K. T. Shah "remains a subject of violent agitation on the part of the Indian public and general bungling on the part of the amateur financiers of India." The maintenance of 18*d* ratio is only one of a series of currency manipulations that have been performed over the period of six decades. Ever since 1873 when a serious decline in the gold value of the rupee started and the ratio between the rupee and the pound sterling began to change 'from year to year, month to month and even day to day,' Government have been manipulating currency and bungling exchange. The number of Currency Commissions and Committees during this long period are proof positive that there is no sanctity about any particular ratio and no permanence. Between 1873 and 1899 the ratio varied and shifted between 24*d* and 13*d*. We have got a fresh reminder of how Government had to resort to the arbitrary closing of the mints to the public for maintaining the ratio fixed by them. On Tuesday 7th November last, Lord Desborough spoke at the East India Association in London. His Lordship "recalled the fact that in 1893 when M P. for Hereford, he was so horrified at the closure of the Indian mints to the free coinage of silver that he resigned his seat by way of protest." Such manipulation has been resorted to from time to time during this long period by the Government of India. In international dealings and even for seasonal internal movements of trade Governments have to manipulate exchange and currency. National Governments practise manipulation in the interests of Commerce and Trade, while the Government of India are "more frequently influenced by fiscal than by trade considerations" in the words of Prof. Shah. In his 'Note on minutes of Dissent on the Report of the Committee on Indian Reserve Bank Legislation' Sir Purushottamdas Thakurdas has referred to "the considerable deflation of currency in India between 1925 and 1930" with which the "ratio has been maintained" at 18*d*. A fair idea of this deflation can be had by comparing the present total currency of India which amounts about 300 crores with the estimate of 550 crores given by Prof. Shah for the year 1921.

For the most recent acts of manipulation you have the testimony of Sir Howard Denning, formerly additional Secretary to the Govern-

ment of India, Finance Department. In his article published in the Foundation Stones Supplement to the Times of India, he mentions that during the early part of the year 1930-31, 'contraction of the currency and deflation of credit by the issue of Treasury Bills sufficed to maintain exchange, though Government was unable to effect any appreciable amount of remittance to London'. About the middle of November of that year "Government had to sell sterling to support exchange" and in February "funds had to be obtained in London by borrowing. Three sterling loans, all short term and yielding six percent or more were floated and produced an aggregate of about £31 million." Government found great difficulty about May 1931 in raising a sterling loan for £10 million even at 6 per cent. "At the beginning of June 1931. Government again had to sell sterling to support exchange" and during that month sales amounted to just over £3 million." Again "between the beginning of August and the 19th September the Government had to sell nearly £11 million to maintain the rupee at the lower gold point." After that gold exports came to the rescue of the Government and did away with the necessity of artificial meddling with currency for maintaining the 18d ratio. The present ability of the Government to maintain the stability of the rupee exchange is 'almost entirely due to the export of gold.'

It is not here intended to enter into the question whether the exported gold is 'distress' gold or 'trade' gold, although Sir Howard Denning himself admits that over 9 crores worth of gold had been "presented at the Bombay Mint for sale to Government at the statutory rate" during the six months March to September 1931 and that this movement of gold "was due to the realisation of stores of value to meet deficiencies in income." There can be no doubt, therefore, that that was 'distress' gold. This much is unquestionable that the gold exported is not an ordinary trade commodity but represents a part of the profits accumulated over a long period of years. Whether the exported gold is distress gold or not, it has certainly saved the Government i.e., India from the distress of having to borrow large amounts at very heavy interest. A rate of exchange that requires for its maintenance large borrowings in foreign markets, export of accumulated profits and large sales of foreign currency resulting in the contraction of indigenous

currency, cannot be looked upon as a fair rate of exchange. And the repeated artificial meddling with currency and exchange "by the Government more frequently influenced by fiscal than by trade considerations" knocks the bottom out of those who throw up their hands in horror at what they call "currency manipulation." No ratio is permanent or sacrosanct.

There are some wellmeaning gentlemen, students of economics, who say it is all a question of the adjustment of the internal price-level with the world price-level. The Publicity Board of Bengal have issued a pamphlet called "Indian Currency Policy" expounding this view. An eminent authority on Currency Sir Dadiba Dalal maintained "that the Indian price level was not adjusted to the world price level. The disparity between the fall respectively on the export side and on the import side disclosed in the "Review of Trade of India in 1932-33" gives abundant evidence that this adjustment is nowhere near us. This disparity has been in evidence for a number of years. The following table will show the extent to which the general level of prices for the imported articles adjusted itself to the General level for exported articles.—

	Imports.	Exports.
1913-14	100	100
1927-28	136	130
1928-29	133	127
1929-30	128	118
1930-31	105	94
1931-32		
1932-33	82	75

But even this disparity does not finish the matter. When people talk of adjustment of the Indian pricelevel to the world price-level, they conceive of the whole world minus India as one undivided entity. Unfortunately it is composed of several units every one of which is in competition with others. Each of the countries has its own currency problems and its own policy of dealing with them. Under these circumstances, the talks of adjustment and waiting till such an adjustment comes about is only an excuse for economic inactivity. It may be

praiseworthy as counsel of perfection. We are all familiar with the phrase "in the long run" and the havoc made by it in practical politics. The 'long run' may never be completed and in the middle the traveller may may faint of exhaustion or starvation. The advice to be followed by men of affairs is the one given by the distinguished Professor Gustav Cassel that "there is nothing to prevent" each individual country from "proceeding on the right road and introducing a rise in its price level." The non-official members of the Assembly and Indians in general must, therefore, continue to agitate for the devaluation of the Indian Rupee in terms of the British Sterling.

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CURRENCY LEAGUE OF INDIA

BULLETIN NO. 16.

WORLD CURRENCIES AND THE POUND.

UNIQUE POSITION OF THE RUPEE.

(R. G. Saraiya).

**JEHANGIR WADIA BUILDING,
ESPLANADE ROAD, FORT,
BOMBAY.**

CURRENCY LEAGUE OF INDIA

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1. To encourage and provide facilities for a systematic and impartial study of questions relating to currency, so that a currency policy best suited to the interests of the country may be evolved.
2. To educate and organise public opinion with a view to opposing the continuation of the 18d. sterling ratio as is sought to be done through the Reserve Bank Bill; and to bring about an immediate devaluation of the rupee.
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Currency League of India.

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UNIQUE POSITION OF THE RUPEE.

(R. G. Saraiya)

It is often contended that the Rupee has considerably depreciated in terms of gold, that a rise of about 50% in the Rupee price of Gold means a corresponding depreciation in the value of the Rupee. This is literally correct in so far as the value of the Rupee in relation to Gold is concerned, but it is of academic interest only. After all, world trade is done in the currencies of various countries and not in Gold. Further what India is concerned with is not so much the value of the Rupee in terms of Gold as the value of the Rupee in terms of the £-Sterling.

In view of this it would be interesting to study the value of the Rupee in terms of the £-Sterling before the war and after the war, and compare how other currencies have fluctuated in relation to the £-Sterling. Forgetting the hectic days after the war when the Rupee went up to Sh. 2-10d., and the Government of India's strenuous attempts to maintain the Rupee at even Sh. 2 failed, the broad fact remains that Re. 1 was equivalent to Sh. 1-4d before the war, and is now equivalent to Sh. 1-6d. In other words, whereas £ 1 bought Rs. 15 before the war, £ 1 buys Rs. 13-5-4 now. This may be stated in other words: "The Rupee is 112.5% of its prewar value in terms of the £".

On the same lines an attempt has been made to study other currencies in terms of the £-Sterling. The £-Sterling has been selected, because a very large part of the world's trade is done in £-Sterling; and further because India is particularly concerned with the £-Sterling. We will begin with the belligerent countries.

Russia depreciated her currency to such an extent that the Rouble became worthless. The same fate befell the German Mark. The old currency of Austria was similarly wiped out. With the wiping out of the old currencies of Russia, Germany and Austria, for all practical purposes, the old debts and liabilities were simultaneously wiped out and the old holders of bonds, debentures and fixed interest bearing obligations were deprived of all their wealth. Even now the German Reich-Mark has a theoretical value only, because the German exchange is controlled. It is not permissible to bring capital out of Germany. If one has a large credit balance in his account in Germany, he cannot sell out Marks, and buy, say, the equivalent amount of Pounds sterling, at the usual rate quoted by the Reichs-Bank. The same may be said also of Russia. The Rouble has one value inside Russia but it is impossible to exchange the Rouble for any foreign currency without Government intervention or permission. It follows that in relation to the Sterling, these currencies are still at a very low purchasing power indeed abroad, and in fact the values of the two currencies cannot be compared with Sterling.

France now boasts of a Gold Standard. Before the war £ 1 could buy 25.207 French Francs. When the Franc was stabilised after the war, and France returned to the Gold Standard, in 1928, £.1 could buy 124. French Francs. In spite of the recent fall in the £ after Great Britain's departure from the Gold Standard in 1931, one £ is still equivalent to 84 Francs. In other words the Franc has depreciated, in relation to the £ sterling, from 25 to 84, a fall of over 70 per cent.

The history of Belgium, Italy, Spain, Portugal and Greece is similar. The following table shows how the currency unit of each of the above countries has behaved.

Country	Pre-war Parity	Parity on Nov. 1, 1933 or last known date.	Present value of foreign currency, expressed as a percentage of its prewar value (100% means same as prewar parity with £)
Belgium	£1=Francs 25.207	1 sovereign=22.48 Belgas=111.40 francs.	22.6%
France	£1=Francs 25.207	£1=80 Francs	31.5%
Italy	£1=Lira 25.207	£1=60 Lira	42%
Spain	£1=Pesetas 15.207	£=37 Pastas	68%
Portugal	(£1=Escudos 4.48) 53½d=Escudo	£1=103 Escudos	4.5%
Greece	£1=Drachmae 25.207	£1=555 Drs.	4.5%

The relative depreciation of each of the above currencies is obvious. But even then the table above does not tell the full tale of the decline and fall of some of the currencies. The Greek currency is strictly controlled. Imports into Greece are strictly rationed by the Greek Government to meet the requirements of and exigencies of exchange.

One of the most important countries in regard to the foreign trade of India is Japan. The Japanese Yen to-day is worth 59% of what it was before the war. The prewar parity of the Yen was 1 Yen=Sh. 2.0 9/16d. To-day 1 Yen=Sh. 1.2 1/2d.

Another country which enters directly into competition with India and which is a large agricultural producer of cotton, is U. S. A. In spite of the great advantage America had in the war, and her position as one of the strongest creditor nations in the world, the United States of America have been forced to embark upon the policy of depreciating the \$. The American Dollar is depreciating so fast that one does not know at what level it will stop. In any case it would be correct to mention that the present value of the U. S. A. Dollar is about 90% of what it was before the war in terms of Sterling.

Canada is a dominion in the British Empire, but it has greater trade relations with the U. S. A. In spite, therefore, of whatever political allegiance that country may have to Sterling, it has been compelled to depreciate its Dollar along with the American Dollar, so that the present value of the Canadian Dollar is about 95% of what it was before the war in terms of Sterling. And Canada is a country which is similar to India as a producer of Wheat.

It is well-known that Australia and New Zealand had to depreciate their £s by something like 25% before they could balance their budget and reinstate their finances.

It would be easy to multiply instances of countries whose currencies have depreciated beyond measures, e.g. Brazil, Argentina, Czechoslovakia, Roumania, Yugoslavia, Finland etc.

Mention must be made of those countries whose currencies to-day are at a higher level than Sterling, namely Switzerland and Holland. It can hardly be maintained that the position of these countries which remained neutral throughout the war, and which are more or less unique economic units, can be compared with that of India.

The value of Chinese currency also has depreciated enormously because China is a country on the Silver standard and the value of Silver, as is well-known, has gone down very considerably in terms of Sterling. It is hardly necessary to quote figures about the price of Silver in Sterling, or for the matter of that, in Rupees.

If the history of world currencies is any guide it will be seen that there was no justification for raising the value of the Rupee in relation to the Pound Sterling after the war. When almost every other country in the world trades in a unit of currency which is cheaper in relation to the Pound Sterling, why should India alone be forced to stick to an enforced appreciation of the Rupee? There is a very strong case, therefore, for a depreciation of the Rupee, at least to bring it to its prewar relation with the Pound Sterling.

CURRENCY LEAGUE OF INDIA

BULLETIN NO. 17

HIGH EXCHANGE— WHAT IT HAS COST INDIA

BY

DR. F. P. ANTIA, M. COM. PH. D., (LOND.) F. S. S.

**JEHANCIR WADIA BUILDING,
ESPLANADE ROAD, FORT,
BOMBAY.**

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HIGH EXCHANGE—WHAT IT HAS COST INDIA.

DR. F. P. ANTIA, M. COM. PH. D., (LOND.) F. S. S.

Soon after the signing of the Armistice, the allied countries set to themselves the task of putting their houses in order. Finance was one of the first problems of Home Government to engage their minds, and both in Great Britain and in India committees were set up to review the position during the period of disorganisation and to make recommendations for future conduct of affairs.

It was thus that the committee presided over by Sir Henry Babington Smith came to be appointed. Trade, industry, currency and exchange were all in a state of flux, and the period during which the committee were in session, was if anything all the more disturbed. It was obvious that the state of affairs which the committee were asked to examine was abnormal. It should also be evident that abnormal conditions do not last for any length of time. A memorandum submitted by the exchange banks, in fact warned them in categorical terms - ".....The conditions we have been going through during the last four years - the War period - have been absolutely artificial in every way; they are artificial today, and it hardly seems reasonable to suppose that in the light of artificial conditions you are going to upset a system which has been in force with so much success from 1893 to 1914. It seems unreasonable to do in the light of the artificial conditions which have been ruling, and which have not yet disappeared."

The committee nevertheless took for their text "that a stable level of exchange gives the most healthy condition for production and trade and for the employment of capital, and that large changes in the exchange value of a currency are an evil, which should be avoided so far as possible; but if a large change has taken place it may be preferable to establish stability at the new level rather than to submit to the further change which is necessary for a return to the old level, especially if the former cause shortens the period of uncertainty."

*1. Para 36. Report of the Babington Smith Committee.

They overlooked the fact, however, that the large change that had taken place was the result of conditions which were abnormal, and that their recommendations would be effective during a period tending towards normalcy.

With the single exception of Mr. Dalal, the committee unanimously recommended the 2sh. gold rupee, and introduced, though unconsciously, a highly injurious element in the cause of Indian finance and trade.

By their notification dated the 2nd February 1920 the Government gave practical shape to the recommendations of the Babington Smith Committee. A rupee was held equivalent to 11.3 grains of fine gold as against the normal value of 7.53 grains, i.e. its value was raised to such an extent that a sovereign which used prior to the War to exchange against Rs. 15/- was now worth only Rs. 10/-.

The result was a heavy demand for discounting bills which caused the rate to shoot up to 2sh. 8½d. With each fall in the sterling-dollar exchange, the rupee-sterling ratio rose further, and at one time was but 1½d. short of 3sh. Cheap sterling attracted remitters to the market, genuine businessmen as well as speculators.

The 2sh. rate set up a voracious demand for Reverse Councils. Whereas in January 1920 it was difficult to sell even a million pounds of reverse drafts, immediately after the fixation of the rupee at 2sh. gold, tenders were received for as much as fifteen and twenty times the amount offered by the Government.

But the tide soon began to turn. Our exports began to slacken, more because of the inability than because of the unwillingness of the European consuming markets to buy from us. For one thing our exports would be very expensive at the high exchange. The harvests that years were none too abundant because of the sparse monsoon, and to diminish the volume of our exports further, there was the embargo on food stuffs. Manufactured commodities for which importers had placed orders induced by the high exchange, began to pour into the country, creating a demand for sterling and so to speak setting up a current in the reverse direction. The rupee began to fall, and even in June, 1920, less than six months after its pegging to 2sh. gold, had fallen as low as 1sh. 8d.

Realising that the 2sh. gold rate was an impossibility, the Government of India fixed the rupee at 2sh. sterling. They continued at the same time to sell Reverse Councils, in order automatically to contract the currency, and to give the rupee a higher scarcity value than what was given to it by trade. By September, however, it was found that not even the 2sh. sterling rate could be maintained, and in the last week of September, the Government acknowledged their defeat by discontinuing entirely the sale of Reverse Councils. Exchange fell rapidly, reaching 1sh. 5d. by December 1920.

What was the cost of this experiment of pegging the rupee at a high exchange, such as could be justified only by a silver famine of the character and intensity that obtained during the War? Who paid the price?

The principal instrument with which the Government defended attacks on the rupee, was the Reverse Council Bill. Between February 1920 and September 1920, the total amount sold came to £50 millions. Even prior to the February 1920 notification, Reverse Councils had been sold to the extent of £5 millions. The result was a depletion of the Paper Currency Reserve in London. But the tragedy thereof lay in the fact that the securities and bills in the reserve had to be sold at $\frac{2}{3}$ the price and even less than that paid for their purchase. The bill which had been purchased at £1—Rs. 15 was sold at £1—Rs. 10 and often less. At £1—Rs. 15 the securities sold would have amounted only to £31 millions. The Paper Currency Reserve thus suffered to the extent of £24 millions during the first eight months that the 2sh. gold and the 2sh. sterling ratio were in operation.

It was however not in the sale of exchange alone that the India suffered a loss. The second expedient they tried to support exchange, also resulted disastrously for them. Gold was sold in order to reduce imports and to raise the rupee relatively in terms of the yellow metal. Between 1919 and 1921 about $55\frac{1}{2}$ crores worth of gold was thus put in the market at prices substantially below the market price. This was an additional item debitable against the high exchange policy of the Government.

The Government gave up their efforts to maintain exchange at 2sh. sterling on the 28th September 1920, and the rupee was left, under the sway of economic forces, to find its own level. The two factors that had been operating against a high rupee could have free play now. In the first place the adverse balance of trade created a demand for sterling weighing down the value of the rupee. And there was the fall in the price of silver itself, which despite the English experts and the firm belief in its high value held by Babington-Smith Committee could not maintain the premium previously put upon it. By December 1920 exchange had fallen to 1sh. 6-3/8d. sterling, i.e. 1sh 1-3/16d. gold. During 1921 there was further fall, the relative gold and sterling values standing as under:—

	Sterling.	Gold.
January	1sh. 5-1/4d.	1sh. 0-15/32d.
July	1sh. 3-5/6d.	0sh. 11-23/32d.
December	1sh. 3-7/8d.	1sh. 1-5/32d.

The foreign trade in merchandise at the same time showed the following adverse balances:—

Year ending.	Exports.	Imports.	Balance of Trade.
		in crores of rupees.	
1920-21	258	335	-77
1921-22	245	266	-21

With the gradual stabilisation of conditions all over the world, Indian exports came in for better demand. In the following year foreign trade even showed a favourable balance, and it is certain that the elimination of the great impediment in the exchange had a great deal to do with the improvement in economic conditions. The following table shows the position for each year.

	Exports.	Imports.	Balance of Trade.
		In crores of rupees.	
1922-23	314	224	90
1923-24	362	217	145
1924-25	398	243	155
1925-26	385	224	161

It may be noted that despite these highly favourable balances, the rupee never rose considerably above 1sh. 6d. The gold and sterling exchanges are shown under:—

	<i>Gold.</i>	<i>Sterling.</i>
January, 1922.	1sh. 1-25/32d.	1sh. 3-15/16d.
December, ..	1sh. 2-27/32d.	1sh. 3-31/32d.
January, 1923.	1sh. 3-9/32d.	1sh. 4-1/32d.
December, ..	1sh. 3-3/8d.	1sh. 5-7/32d.
January, 1924.	1sh. 3-1/16d.	1sh. 5-3/32d.
December, ..	1sh. 5-3/16d.	1sh. 6-1/32d.
January, 1925.	1sh. 5-21/32d.	1sh. 6-1/16d.
December, ..	1sh. 6-7/32d.	1sh. 6-5/32,*
January, 1926.	1sh. 6-5/32d.	1sh. 6-5/32.

* Sterling appreciates to gold level.

It was not as though Government had abandoned all attempts to fix the external price of the rupee. Only their modus operandi was more indirect. The Secretary of State adopted the ingenious device of stopping sales of council bills at Home for his requirements and instead borrowed money in England. The natural expansion of currency thus could not take place. This was actually tantamount to a contraction of currency, so that on account of the scarcity of the circulating media, a premium came to be placed on the rupees. This was one indirect way of raising the rupee. Another was by actual sale of Indian securities in the paper currency reserve which necessitated the cancellation or withdrawal of notes against such sales. The actual contraction has been calculated by an investigator as under:—

<i>Period.</i>	<i>Amount of contraction.</i>	<i>Amount of expansion.</i>
<i>In crores of rupees.</i>		
Jan. 1920. to March 1921.	38	...
1921-22	4	...
1922-23	10	...
1923-24	...	18
1924-25	...	2
1925-26	...	1

On balance therefore there was a net contraction of Rs. 31 crores in an attempt to make the rupee scarce and thus appreciate its value. But though the object of raising the value of the rupee was achieved - partly through the manipulation by the Government, described above and partly as a result of our favourable balance of trade - the remedy adopted created a difficulty in another direction. Money became so scarce on account of the contraction that the Imperial Bank rates during the busy season reached unprecedented heights. The figures given under, show how serious the situation was.

<i>Year</i>	<i>Imperial Bank Rate. (approximate)</i>
1922	8
1923	8
1924	9
1925	7
1926	6

It could well be imagined how this high bank rate must have handicapped the finance of trade and industry in the country. The direct loss accruing thereby is, for obvious reasons, impossible of calculation, but there could be little doubt about the fact that this was part of the price India had to pay for the luxury of the high exchange that had been thrust upon her. This item should have a definite place in the schedule of our losses, alongside with the reverse councils and the sale of gold.

The continued dissatisfaction with this state of affairs, led to the appointment of yet another body of experts a Royal Commission presided by Commander E. Hilton Young "to examine and report on the Indian Exchange and Currency System and Practice, to consider whether any modifications are desirable in the interests of India and to make recommendations."

The principal recommendation of the commission with which we are concerned, appertains to the ratio. On this point, the commission said, "We recommend that the rupee be stabilised in relation to gold at a rate corresponding to an exchange rate of 1sh. 6d. for the rupee. The chief reason for this recommendation is our conviction which

has been formed and cumulatively reinforced during the progress of our inquiry, that at the present exchange rate of about 1sh. 6d., prices in India have already obtained a substantial measure of adjustment with those in the world at large, and as a corollary that any change in the rate would mean a difficult period of readjustment, involving widespread economic disturbance, which it is most desirable in the interests of the people to avoid and which would in the end be followed by no countervailing advantage."

They brought in other considerations to support the 1sh. 6d. ratio. Re wages they said, "It may be inferred on general grounds that considerable progress has already been made in the process of adjustment" to the 1sh. 6d. From the point of view of the outstanding contracts, they found "the least disturbance will be caused and the least injury will be done to all interests concerned by adhering to the defacto ratio" viz. 1sh. 6d.

In a closely argued minute of dissent which Sir Purshotamdas Thakurdas appended to this report, the principal argument of the majority was answered as under:—

"When it is remembered that commodity price follow movement in exchange and that there is always a lag in Indian internal prices and a delayed adjustment to internal factors, it must be admitted that the greater part of the general adjustment to 1sh. 6d. by a fall is still to come. If the rupee is now stabilised at 1sh. 6d. that fall will be aggravated if gold prices themselves fall from the present level..... If gold prices fall—and Indian prices must follow such a fall—India will be faced with a still bigger fall—the double effect of the operation of the present rate of 1sh. 6d. and also the world fall. I cannot but contemplate", concluded Sir P. T. "Such a prospect with very serious misgivings, for it will hit the Indian producer to an extent beyond his capacity to bear. In a word it will hit and hit very hard, fourfifths of the population of the country that exists on agriculture."

In regard to wages, the minute after adducing facts and figures proved that "no adjustment either in agriculture, industrial or clerical wages has taken place, and none would without a struggle". It was found also that no reduction had taken place in the level of wages as against 1921, when the rupee was below 1sh. 4d. gold.

In recommending the 1sh. 4d. rate, Sir Purshotamdas Thakurdas hit straight to the point "..... I need hardly say that I cannot agree with those who protest that in doing so, I am advocating a depreciation of the Indian currency. In fact, I urge that the artificial appreciation of the rupee, represented by the 1sh. 6d. ratio justified neither by India's circumstances nor by her requirements should be eliminated and should in no way prejudice considerations determining her legal ratio."

The 1sh. 6d. ratio again violated the sanctity of existing contracts, as between the debtor and the creditor, to the prejudice of the former and was thus from the dissester's point of view further condemnable.

The lengthy quotations from the minute need no apology. Subsequent trends in India's economy have proved too well how correctly the dissenting minute had read the situation and forecast the future.

None of the minority arguments could prevail however against the *fait accompli* which the Government had by their manipulations presented to the country, the 1927 Currency Act put on the statute book the new ratio of 1sh. 6d. gold, and prepared the ground afresh for a further spell of manouvering by the Finance Department.

For a time, after the establishment of the new ratio, the course of events ran smooth. This was the period just prior to the Wall Street crash of 1929. Uncle Sam had his dinner pail full, and everybody was looking forward to two cars in his garage, in place of the previous one. Prosperity was in the air, and India also had her share therein with other commercial countries. Between 1926 and 1929, there was a steady progress in our commercial position, as will be clear from the following figures:—

*Tr. de position in merchandise
in crores of rupees.*

	<i>Exports</i>	<i>Imports</i>	<i>Balance of Trade,</i>
1926-27	309	229	79
1927-28	329	247	82
1928-29	338	251	87

The 1sh. 6d. ratio had therefore little resistance to meet with for a time.

So soon however as the effects of the world slump began to be felt in India, the position changed. Exchange sagged, and Government found it difficult to purchase sterling for their remittances to the Secretary of State for India. Recourse had to be had to Treasury Bills. In the words of the Controller of Currency "To prevent the out flow of funds during that period when the demand in India is seasonably weak, large amounts had to be withdrawn from the market, and in the absence of a Central Bank the only practicable method was the issue of Treasury Bills by the Government. These issues enable the Government not only to maintain the exchange value of the rupee without selling gold or sterling but to purchase a fair amount of remittance towards meeting the requirements of the Secretary of States in London" 1. The following statements will show at a glance the net contractions that were brought about by one means or another, in order to give effect to the 1sh. 6d. gold ratio.

	<i>Contraction in crores of rupees.</i>	<i>Expansion in crores of rupees.</i>
1926-27	29	...
1927-28	4	...
1928-29	...	2
1929-30	32	...
1930-31	37	...

In the light of this, and having regard to the large quantities of her produce which India marketed during the period, it was not surprising that our money rates should have ruled abnormally high in comparison with those in other countries. The contrast however becomes particularly marked after the Wall Street collapse when both

1 Report of the Controller of Currency 1929-30 para 5.

in New York and in London, money was plentiful and cheap. The following figures make the position clear:—

Year ending.	Bank Rates.		
	Calcutta	New York.	London.
1927	7	3½	4½
1928	7	5	4½
1929	7	4½	5
1930	6	2	3
1931	7	2	3

As a matter of fact in explanation of this disparity the currency authorities admitted—"given satisfactory harvests in such countries (with a dominant agricultural economy) prices of agricultural products are the first to fall resulting in redundancy of floating money, disequilibrium of prices and an undue strain on the foreign exchanges. It is clearly necessary under such circumstances to take measures to ration credit, and to control money rates until equilibrium is restored." The contractions of currency were therefore effected with a deliberate purpose to raise money rates. As to whether the effect of such rise was in the interests of Indian trade and industry for which finance had to be found, the Government could have felt hardly concerned with.

The rupee was held prior to the War, even upto 1917, to be worth 1sh. 4d. gold. Putting its value now at 1sh. 6d. meant that the rupee was appreciated in its gold worth. If the rupee was worth more in gold, it should certainly have a greater purchasing power, i.e., it would buy more than it did previously in the market. This is the precisely what the rupee acquired. Commodity prices sag if the currency in which the commodities are paid for is given a higher value. This was the effect produced by the artificially appreciated rupee. Whereas world prices fell only very slightly in some countries and ruled fairly steady in others during the period immediately following the fixation at 1sh. 6d., Indian prices assumed a definitely downward trend. The index Nos. for India are as under:—

All commodities.	
1925	159
1926	148
1927	148
1928	145
1929	150

These figures register the fall before the Wall Street crash. But even after September 1929 the collapse was more rapid in the case of Indian prices than in the case of others. The Calcutta wholesale price index number standing at 143 in September 1929, fell to 91 by September 1931—a fall of 36 per cent. On the other hand, The U. K. Board of Trade index number fell during the same period from 135.8 to 99.2 i.e. it was down only 27 per cent. At the same time U. S. A. Bureau of Labour index number fell from 96.1 to 71.2—26 per cent.

The same is the story for the period after we were forced off the gold standard so summarily by an announcement of the Secretary of State. The depreciation of the rupee thus brought about, of course put up commodity prices to a certain extent. But even with this rise in prices, the fall over the whole period beginning with September 1929 is the greatest in the case of India. In June 1932, the Calcutta index number stood at 86, i.e., it marked a fall of 40 per cent. as against September 1929. The U. K. figure for May 1932 on the other hand was 100.7—a fall of 26 per cent., and the U. S. A. for April 1932 at 65.5 a fall of 32 per cent. compared with September 1929. The fall in the case of India has thus been uniformly greater than in the case of other countries, both before and after the Wall Street collapse and after the abandonment of the gold standard by Great Britain. For more recent months the fluctuations are as under—

June	1932	...	86
September	1932	...	91
December	1932	...	88
March	1933	...	82
June	1933	...	89
September	1933	...	88

All that can be surmised from the above figures is that Roosevelt's efforts have hardly been effective as far as India is concerned, and that the utmost they could do was to arrest a fall or to keep the keel even. The high external value of the rupee keeps the prices from rising to any extent.

Since the linking of the rupee to sterling however, a further factor has entered into the maintenance of the exchange. The rapid deterioration in our exports reduced our favourable balance of trade in merchandise to an unprecedentedly low level, as per figures below:—

	<i>Crores of Rs.</i>	
1927-28	...	82
1928-29	...	86
1929-30	...	79
1930-31	...	62
1931-32	...	35
1932-33	...	3

Assistance however came from an unexpected source. The fall in agricultural prices released a quantity of distress gold from the interior which soon found its way abroad because of the heavy premium put upon gold by countries with currencies off gold. The net exports of gold in 1931-32 thus amounted to Rs. 55 crores and the total exports up to date have been about Rs. 154 crores.

It has been noted above that even during periods when our export trade was booming, it was impossible for Government to maintain the 1s. 6d. ratio without recourse to contraction of currency. Could the ratio have been maintained then, with our exports at so low a level as during 1931-32 and 1932-33? But for the sustenance imparted by the exports of gold, the maintenance of the exchange at the statutory level was an impossibility. Left to itself, there could be no doubt that trade demand alone would cause an immediate sagging. This is what should happen if the gold exports cease. And there is no reason to suppose that they will last indefinitely. Our question to the Government of India then is, why not abandon a ratio which is sure to collapse, sooner rather than later? It has wrought enough mischief already, why permit it to work greater disaster? Why not above everything give a fillip to trade by bringing the rupee down at any rate to its old level of 1s. 4d. so as to raise our commodity prices. The poor ryot has been hit hard enough by every material omission and commission of our currency masters. Why not take one step which is recognised definitely to be to his advantage?

CURRENCY LEAGUE OF INDIA

BULLETIN No. 18

RATIO QUESTION
SECOND STATEMENT

by
Nalini Ranjan Sarker

Jehangir Wadia Building,
Esplanade Road, Fort,
BOMBAY.

Currency League of India

OBJECTS

1. To encourage and provide facilities for a systematic and impartial study of questions relating to currency, so that currency policy best suited to the interests of the country may be evolved.
2. To educate and organise public opinion with a view to opposing the continuation of the 18d. sterling ratio as is sought to be done through the Reserve Bank Bill; and to bring about an immediate devaluation of the rupee.
3. To do all other things for the promotion of the above Objects.

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CURRENCY LEAGUE OF INDIA

RATIO QUESTION

Statement by Mr. Nalini R. Sarker

After my first fairly long statement on the ratio question I should not have thought that a second one would be necessary; but in the replies that have appeared in the press certain points have been raised, which require examination in the light of ascertained facts and actual figures. The validity and correctness of most of them cannot be permitted to remain unchallenged.

GENERAL AGREEMENT OF INDIAN OPINION

Except for a few individuals in Bengal in no other province has the present ratio found any responsible supporters among Indians. From the resolutions and statements that have been passed by various influential and representative organizations or appeared in the press all over the country I think even the protagonists of the 1s. 6d. ratio must concede that the Indian commercial community and influential leaders of public opinion have urged for devaluation of the Rupee from time to time.

BOMBAY—BENGAL ISSUE DEAD.

The controversy received impetus in Bengal,—in fact it is the main fuel on which it has been running—from the supposed antagonism between interests of Bengal and Bombay. Acharya Ray stated that the move for devaluation is intended “to give indirect protection to the Bombay mill-owners” and is thoroughly injurious to the interests of Bengal....” In his latest statement the emphasis has been shifted from the imaginary inter-provincial conflict of interests

to some pseudo-economic facts. Another gentle opponent of devaluation admits that the Bombay-Bengal question "does not interest us." I must express particular gratification at this refreshing change and I consider it an exceedingly valuable gain in the interest of a correct appraisal of the problem.

ACHARYA RAY'S LATEST STATEMENT

About the ratio itself Acharya Ray at first said that the move for devaluation "should be opposed at the beginning." The natural conclusion is that he approved of the present ratio. In his latest statement I am glad to note that he "does not claim that our present ratio is at all a perfect one." If so, one would like to know what are its imperfections. A ratio can have only two imperfections. It is either overvalued or undervalued. He does not claim that it is undervalued, and therefore would we not be justified in concluding that it is overvalued? But he would stoutly deny that the rupee is overvalued. We can only conclude, therefore, that there is some confusion in his mind.

MISLEADING QUOTATIONS FROM TEXTS.

Before examining his main theme I must point out that his citation of authorities provides us with only some half truths. Prof. Keynes' "Economic Consequences of Churchill" was quoted in his first statement. I pointed out the contradiction between the text and the sermon, because Prof. Keynes' pamphlet was really a caustic attack on Churchill for restoring the gold standard at an overvalued parity. The old text has, I notice, been slowly dropped, but Prof. Keynes is still being quoted without the full context, from a different text this time viz., the Report of the Macmillan Committee. No doubt Prof. Keynes was a signatory to the Report, but if Acharya Ray had carefully read the Report he would have noticed that he has also signed A Addendum No. 1 which clearly states in its opening paragraph that the Report "is incomplete without certain further observations," Among them the most important for our purpose is that "theoretically the most obvious and comprehensive method of effecting the desired object would be.....to change the monetary standard, e.g., by diminishing by 10% the gold parity of sterling." In the special cir-

circumstances of Great Britain "they did not recommend it as a policy for Britain; but those "special circumstances," Acharya Ray must have known, do not at all apply to India. Our conditions and problems are entirely different, and for countries, differently situated they recommended a different policy. The Addendum affirmed that "for a country which was not an international banker and was not owed large sums from abroad fixed in terms of sterling this (devaluation) would be the *simplest solution*." (Italics mine own).

India, I submit, is just that type of country. She is not an international banker, neither is she owed large sums of money from abroad. She is an international finance debtor. I wish to say how misleading it is in a public controversy to quote chosen scraps from authorities without reference to the full context, for this is the second time that I have been forced to refer to the misleading quotations made by Sir P. C. Ray.

18d. STERLING AND GOLD DISTINGUISHED.

Acharya Ray next tries to reconcile his present support of 18d. rupee with his staunch advocacy of 16d. rupee in 1927 and says that what he wanted was "16d. gold rupee and the present 16d. sterling rupee is an altogether different thing to-day." The only deduction from this is that he still adheres to 16d. gold rupee. If that be so, may I put before him that 16d. gold rupee would be approximately 22d. sterling rupee to-day? In other words, he would have to be a terrible overvaluationist. Even the Government of India would shudder to fly the rupee so high. Acharya Ray's attempt to reconcile his old economies with his new has, I am afraid, tied him up in a curious economic knot.

There are further grave inaccuracies in the facts and figures quoted by Acharya Ray, in connection with the effects of depreciated currency in New Zealand, Australia, Canada, England and U.S.A., to which I shall draw attention later.

IS RUPEE OVER-VALUED ?

I may now turn to the main proposition which has been questioned in certain quarters: "Is the Rupee over-valued?" In this connection

It may be pointed out that for the last 14 years the Government have been following a consistent and relentless policy of maintaining an over-valued rupee. Soon after the war the Government fixed the rupee at 2s. It broke down after our gold resources had all but decimated, and the rupee sagged below 16d. After the War many European countries such as France, Italy, Germany and Belgium devaluated their currencies before they returned to gold. England, however, returned to gold in 1925 at the pro-war parity. After six years of desperate struggle she threw up the gold standard in September 1931. But India was manoeuvred into returning to gold ratio higher than the pre-war parity. I think, I am right in saying that India was the only country in the world that adopted this ruinous policy. The demand for devaluation is nothing more than the demand for the rectification of that deliberate blunder. We are asking for expiation for that original sin.

In my previous statement on the subject I gave some relevant facts and figures to show that the rupee is overvalued even in relation to sterling. It was over-valued even initially when the present ratio was given statutory recognition and the over-valuation has continued ever since. In support of my view I referred to the catastrophic decline in the favourable balance of India's foreign trade in merchandise since 1928-29 and also pointed out how as compared with other agricultural countries like Canada, Australia, New Zealand and Argentine, the overvaluation of the rupee led to a proportionately heavier decline in the exports of India *vis-a-vis* the fall in the exports of the respective countries. As a further proof of the over-valuation of rupee I referred to the dwindling per centage share of India in the total world trade.

I had also shown that though the slump in world-trade had led to a shrinkage in the volume and value of trade in all countries, there was a greater set-back in the exports of India as compared with other agricultural countries and that this phenomenon was by itself a significant index of the over-valuation, of the Rupee. It may now be pointed out in corroboration of this statement that even within India, the incidence of the over-valuation of the rupee is registered in very

much the same way in a larger percentage decline in the value of the exports as compared with the import trade of the country :

*Percentage change in the Exports and Imports of
India as compared with the previous year.*

	IMPORT.	EXPORT.
1931-32	-24%	-29.3%
1932-33	1.5%	-17%

This disparity between the decline in exports and imports gives point to the presumption that the rupee is over-valued. It need hardly be pointed out that an over-valued currency acts on the one hand as a bounty to imports and on the other as a handicap on exports. The implications of this first postulate of currency principles are amply borne out by the trends of our foreign trade during the last two years.

COMPARATIVE PRICE STATISTICS.

Another unmistakable testimony of the overvaluation of the rupee is furnished by the comparative price statistics of India and other agricultural countries which are susceptible to the same economic forces as India. Such a comparison of price movements reveals that although as a consequence of the depression in world trade there has been a fall in prices in all these countries, the decline has been conspicuously greater in the case of India than in other agricultural countries.

Index Number of Wholesale Prices.

	1930 (Average)	1933 (May)	Percentage fall as compared with 1930.
Australia	147	129	10.8%
Canada	135	105	22.2%
Argentine	112	112	8.2%
New Zealand	143	130	16.0%
India	116	87	25.0%

To what else could the unique fall in prices in India be ascribed than to the over-valuation of the rupee ? In my first statement I had observed

of course, in a different context that though after England's abandonment of gold standard the rupee has obtained the advantage of depreciation being linked to sterling, the advantage was not enough to compensate the initial over-valuation owing to the fixity of the ratio and expansion of the 'sterlingaria.' I had pointed out in that connection that though being switched off the gold basis both sterling and rupee had depreciated alike, in relation to gold, the continuity of the pre-existing ratio between the two prevented the phenomenon being advantageous to England and India to the same extent, as the disparity between the rise in prices in the two countries would reveal. While I still hold the view as strongly as I ever did, it has given me no little surprise to see that the contention has in some quarters been taken out of its context and the lesson of the unique price-movement in India has been sought to be obscured by giving over-emphasis to the naive and general principle, too well known even to the novice in economic studies, that the price structures of industrial and agricultural countries are not comparable, presumably to imply that the disparity between the price indices in England and India does not give any point to the case for devaluation. I cannot help mentioning the name of Prof. Beney Kumar Sarker who advanced this criticism with greater enthusiasm than regard for relevance to the particular point at issue would seem to justify. I wonder how such critics while labouring on an economic truism could have overlooked the disparity between the prices in India and other agricultural countries whose price structure is 'comparable' to that of India.

IMPROVED TRADE BALANCE AFTER 1927.

The question has been asked as to how, if the rupee was over-valued, the export of India could have increased in the year following 1926-27. The question speaks of an erroneous attitude of mind which presumes that over-valuation is incompatible with expansion of exports in all circumstances. Such a presumption is incorrect as the impediment created by over-valuation may at times be surmounted by specially favourable circumstances which may even lead to an increase in export. But the impediment will be there all the same and will bear its effect in its own measure though the same may be obscured

by the repercussions of other favourable factors. The following table shows that though during 1928 there has been an all round increase in the exports of all agricultural countries the increase has been the smallest in India excepting Australia; it also shows how with the advent of depression in 1929 the fall has been more precipitate in India than in most of those countries. By all tokens the unique effect in the case of India in both instances is to be ascribed to the over-valuation of the rupee.

Exports of Merchandise.

	Percentage of Increase & Decrease.		
	1928	1929	
Canada	15	-15.4	
Australia	-10	13	(Year of official sus-
New Zealand	14.6	0	pension of gold
Brazil	9.0	-2.1	standard).
Argentina	5.8	6	
Denmark	5.4	4.3	
	(1928-29)	(1929-30)	
India	2.6	-5.9	

RECENT EXPANSION OF EXPORTS.

The fact that rupee is over-valued is indirectly proved by the arguments advanced in refutation of the contention by the advocates of the 1s. 6d. ratio. It is asserted by the latter that an adjustment in the value of the rupee to trade conditions must have taken place as otherwise the trade balance of India could not have gone up so high as Rs. 10 crores during the six months April to September in the current year. While it should be pointed out that the increase in exports during the period under review has by no means been exceptional in the case of India, as in fact it has been brought about by a general improvement in the conditions of the world trade being reflected in the stimulation of the trade of all countries, the increase in the case of India is to be ascribed partially at least to certain special circumstances. Taking 1928 as the base year equivalent to 100, the index of the industrial activity for the whole world (excluding U.S.S.R.)

marked a increase of more than 30.8% within five months, rising from 65.8% in March 1933 to 85.8% in July 1933, the percentage of increase being the highest in U. S. A., Japan and the U. K. A close scrutiny of the movements of India's foreign trade that have yielded the satisfactory balance shows that instead of challenging the fact of over-valuation these indirectly confirm it. Such a scrutiny reveals that out of the excess of India's exports during this period worth about Rs. 10 crores as much as Rs. 9 crores are accounted for by only 7 countries, as shown below :—

Japan	.. Rs. 2,12 lakhs
U. K.	.. Rs. 2,34 ,,
U. S. A.	.. Rs. 2,23 ,
Germany	.. Rs. 84 ,,
France	.. Rs. 30 ,,
Italy ..	.. Rs. 74 ,,
Belgium	.. Rs. 37 ,,
	<hr/>
	Rs. 8,94 lakhs.

SCRUTINY OF INCREASED VOLUME OF TRADE

Among these countries, the larger off-take of U. K. is to be partially ascribed to the dubious effect of the Ottawa Agreement and the increased industrial activity in England, but it is significant that her relative share of the exports from India during the six months April to September has been even smaller than it was in 1932. The increase in the case of Japan and the U.S.A. is explained by the remarkable acceleration of the industrial activities of the two countries under the direct incentive of a depreciated currency in the case of Japan leading to a phenomenal expansion of exports and the 'reconstruction scheme' in the U. S. A., creating increased demand for raw materials. For the rest of the countries it is significant to note that the increase of India's exports to those countries compared with the corresponding period of 1932 was primarily ascribable to the relative over-valuation of the currencies of these countries as compared with the position in 1932. This will be evident from the following table :

Rates of Exchange in 1932 and 1933 compared

Germany mark to £ Par—20.43		France Franc to £ Par—124.21	
1932	1933	1932	1933
April 7 . . . 15.95	April 6 . . . 14.43	April 7 . . . 96	April 6 . . . 86½
May 12 . . . 15.31	May 11 . . . 14.32	May 12 . . . 92¾	May 11 . . . 85 9/16
June 16 . . . 15.40	June 15 . . . 14.25	June 16 . . . 93	June 15 . . . 86 1/16
July 14 . . . 14.90	July 13 . . . 13.875	July 14 . . . 90½	July 13 . . . 85 ½
Aug. 18 . . . 14.55	Aug. 10 . . . 13.875	Aug. 18 . . . 88½	Aug. 10 . . . 84 7/16
Sept. 22 . . . 14.50	Sept. 21 . . . 12.93	Sept. 22 . . . 88½	Sept. 21 . . . 79

Italy Lire to £ Par—92.46		Belgium Belga to £ Par—35.00	
1932	1933	1932	1933
April 14 . . . 73½	April 12 . . . 66½	April 14 . . . 26 3/16	April 12 . . . 24.39
May 19 . . . 71½	May 18 . . . 64 13/16	May 10 . . . 26.15	May 18 . . . 24.27
June 16 . . . 71½	June 15 . . . 64 13/16	June 16 . . . 26½	June 15 . . . 24.22
July 14 . . . 69½	July 13 . . . 62½	July 14 . . . 25.50	July 13 . . . 22 13/16
Aug. 18 . . . 67½	Aug. 24 . . . 62½	Aug. 18 . . . 25.0	Aug. 24 . . . 23.48
Sept. 22 . . . 67½	Sept. 21 . . . 58½	Sept. 22 . . . 24.85	Sept. 21 . . . 22.15

The fact that the currencies of Germany, France, Italy and Belgium were all relatively over-valued in relation to £ and consequently the rupee, during the 6 months April to September of this year as compared with the corresponding period of 1932, is the real explanation of the remarkable increase in India's exports to these countries. As a matter of fact, it is this relative over-valuation of the currencies of the aforementioned countries that lead to an increase of their percentage share in the total exports of India during the period under review and a corresponding fall in the percentage share of India's imports therefrom in accordance with the basic economic law that an over-valued currency stimulates imports and discourages exports.

In other words as against these countries India enjoyed the advantage of devaluation and the trade figures are the most eloquent justification of the demand for devaluation.

(Six months—April to September)

	<i>Imports from India</i>		<i>Exports to India</i>	
	1932	1933	1932	1933
	%	%	%	%
Germany	6.3	6.5	8.0	7.3
France	5.4	5.0	1.5	1.4
Italy	2.6	3.0	5.3	3.2
Belgium	2.4	3.5	3.8	72.5
U. K.	29.4	28.4	35.8	41.2
U. S. A.	7.3	9.5	9.8	5.5
Japan	7.9	9.7	15.4	15.3

CASE FOR DEVALUATION UNAFFECTED

However, the fact that rupee has been relatively under-valued in relation to gold currencies and has yielded the advantage of depreciation in India's trade with gold standard countries does not at all lessen the urgency for the necessary devaluation even in terms of sterling against which our rupee still remains over-valued. As I have already pointed out, India's claim for devaluation is suggested not by the thought of taking any undue advantage of depreciated currency but by the legitimate grievance against an initial over-valuation that has been persisting from 1927. Devaluation of the rupee is needed as much in relation to the currency of England as of other countries and since the rupee is tacked on to sterling at the pre-existing ratio, the abandonment of gold standard by England has not in any way extenuated the original handicap imposed on India in her trade relation to the sterling group of countries which have greatly widened since September 1931 and account for by far the largest share of India's export trade. I invited special attention to this fact in my previous statement asserting that the depreciation of the rupee as a consequence

of being linked to sterling gave India no advantage against the sterling group of countries and I may point out to those who attach exaggerated importance to the increase of India's exports during the aforesaid six months' period of the current year that the case for devaluation is as urgent at present as it ever was despite the increased volume of exports in recent months:—

Value and Percentage increase of India's exports to the Sterling & Gold group of countries.

	6 months April to Sept.		Percentage increase.
	1932	1933	
Sterling Group	30 Crores	34 Crores	13.3
Gold Group	12 "	14 "	16.6

It is clear that India's exports to countries in relation to which she enjoys the advantage of devaluation have increased more than to those against which she has no such advantage.

ACHARYA RAY'S CITATION OF DEVALUATED CURRENCIES EXAMINED

It will now pass on to consider some of the arguments advanced against devaluation since I made my first statement to the press. My mind is naturally drawn to such of these arguments as have been put forward by Sir. P. C. Ray in his latest statement in a manner which suggests that they are all based on unimpeachable facts and not personal impressions of his own. Sir. P. C. Ray observed "it is true that in normal years currency depreciation would have acted as a lever for encouraging our exports with a consequent rise in prices. But we must remember that particularly since the year 1931 various agricultural countries like Argentine, Canada, New Zealand, Australia etc., have had recourse to this method, but none of them has profited by it." I was amazed at this observation of Sir P. C. Ray which from a reference to authoritative literature on the subject appeared to involve a direct contradiction of facts. A recent issue of the 'Midland Monthly Review' bears an eloquent refutation of this puzzling observation. The issue in its principal article effectively points out how in most of

those countries mentioned by Sir P. C. Ray depreciation has led to the very results denied by him. Referring to Australia it observes (the observation is also confirmed by the Lloyds Bank Monthly Review) "that the readjustments imposed by the fall in the primary commodity prices (till 1931) took the form of severe retrenchment in national and state expenditures, heavy increases of taxation, reduction in wages and salaries, exchange depreciation and restriction of imports. Those measures contributed in varying degrees to the recuperation which began two years ago, but it is beyond doubt that Australia's task was facilitated by the depreciation of the pound sterling in terms of gold and the inauguration here of a more liberal monetary policy than could have been pursued while we remained on the gold standard. *Primary commodity prices in Australia have risen substantially until in August last the index number was well above the level of a year ago and slightly higher than the average for 1931. The improvement in external trade is striking.*" (Italics mine). Almost identical remarks are made about New Zealand in the following words :

"Indeed, conditions did not begin definitely to mend until the current year, when the *position of primary producers was eased first by the depreciation of the New Zealand pound in terms of sterling to about the same level as the Australian, and secondly, by the recovery in export prices. Between January and August 1933 the whole-sale price index rose by about five per cent, mainly as the result of exchange depreciation. The improvement in the external trade position in the past two years has been conspicuous*" (Italics mine). About South Africa it is observed ; "It is much more than a coincidence that the turn of the year also witnessed the departure of South Africa from the gold standard and the depreciation of her currency, in exchange value, to parity with sterling. The resulting rise in the South African price of gold was followed by increased activity in gold mining and a large addition to current output. This development whose *effects radiated throughout the economic structure, was shortly followed moreover by a rise in the prices of South Africa's other staple products notably wool. In the first eight months of this year both exports and imports have increased in value, the improvement in exports being by no means confined to gold but spread over*

a wide range of commodities." (Italics mine). Even Canada, whose inclusion in the sterling group till recently was of 'doubtful justification makes no exception to the rule. Referring to the fact that the Canadian Dollar has till recently tended to fluctuate more with the United States Dollar than with the pound it is stated, "it is not surprising to find that the improvement in Canada began in the second quarter of this year. Since then it has proceeded steadily. Wholesale prices have risen from the record low level of February, until in August they were well above the average for 1932 and almost up to the level of 1931. Exports have just as consistently increased..." (Italics mine). Argentine depreciated her currency in November 1929 and in December the wholesale prices index stood at 94, it went on increasing till it became 96 in March 1930 being fairly maintained on that level till May when the onset of the depression proved too much for Argentine to cope with. As a matter of fact the trade returns for 1930 showed an adverse balance of 100,000,000 pesos. But this adverse balance was turned into a favourable balance of 295,000,000 pesos in 1931 and 203,000,000 pesos in 1932,—an achievement indeed in the midst of universal shrinkage in trade balance. I may point out that the depreciation of currencies in the case of all these countries has not only stimulated prices and exports but has also helped a general economic recovery including the financial position of their respective Governments.

EXPERIENCE OF U. K. AND U. S. A.

The same inconsistency with facts vitiates another argument put forward by Sir P. C. Ray asserting on the basis of a report published in the Statesman of the Bank of England's statistical summary, that since September 19, 1931 'neither Great Britain nor the United States have been able to raise the price level by monetary action.' On the contrary, the following figures taken from a table relating to sterling and international prices published in the Economist dated the 18th November, 1933, show that prices of primary products have appreciably risen in England since September, 1931, and also in the U. S. A. since April 1933 following the suspension of gold standard in that country.

Index of Prices.

September 18, 1931—100

		(Primary Products)	
		Br. Sterling	American Dollar.
1932	January 27th	115.7	
	August 24th	111.8	
	December 28th	109.3	
1933	April 19th	104.6	88.7
	May 31st	116.3	108.5
	June 28th	118.2	117.2
	July 26th	120.6	124.7
	August 23rd	116.9	119.0
	September 20th	116.9	120.7
	October 18th	112.8	109.1
	November 15th	113.8	122.0

It will be noted from the above table that the price of primary commodities as recorded in November 1933 marked an increase of 13 % in the U. K. since September 1931 and about 38% in the U. S. A. since April 1933, the percentage recorded during the intervening period being even higher than these figures.

CONTRAST WITH CASE OF INDIA.

Against these figures the comparative price statistics of the primary commodities in India which are faithfully reflected in the price movements of the articles of export afford a pitiable contrast.

Indian Index Number Series
(1873—100)

		Exported Articles.
1931	December	123
1932	December	120
1933	March	115
Fall in March 1933 as compared with		
December 1931	.. ..	-6.5%

The fall would be found to be greater still if the latest figures were compared with the figures before September 21, 1933. It is impossible to exaggerate the urgency for devaluation of the Rupee in the face of such pronounced disparity between the price movements of primary products in India and the U. K.

RATIO AND PROTECTION.

Sir P. C. Ray says that if our industries require protection they should ask for it directly by establishing the case for it. The real point is that if the right ratio were established a large number of them would not require protection. Their position would be amply safeguarded if the indirect bounty that imports receive through an overvalued rupee were abolished. There is not much economic sense in endangering your industries by pursuing the wrong ratio policy and then rectify it by protective duties. Why burn your foot for the pleasure of applying the ointment? Further Sir P. C. Ray's assumption that the advocates of devaluation are really manoeuvring for protection to industries is absolutely erroneous. As I have conclusively proved, overvaluation of the rupee acts as a drag on exports, and the removal of this obstacle should certainly not be confused with the grant of protection to industries. Overvaluation of the rupee has affected all industries equally, and this can and should be corrected by devaluation alone. To counteract this overvaluation of the rupee by cumbrous procedure of raising tariff on all kinds of commodities is as illogical as it is impracticable.

INDUSTRIAL DEVELOPMENT—REAL REMEDY:

It has also been suggested that industrial development is the real remedy; but how can industries develop without a sound currency and exchange policy? The point is, the present ratio is very largely responsible for the parlous condition of our industries, and Indian industrialists have with one voice condemned it. Acharya Ray's complete failure to grasp this fundamental causal relationship is mainly responsible for putting the industrial horse before the ratio cart.

CONCLUSION.

The controversy has, I am afraid, become somewhat diffused in the hands of our critics. The constant shifting of grounds, the dragging in of irrelevant features, and the increasing emphasis given to non-essentials are likely to take our attention away from the crust of the problem, give it a wrong focus and render the whole question rather hazy. Criticisms have been made against devaluation on the ground that a mere devaluationists policy will not solve the whole problem. No one, far less I, has even claimed this advantage for a lower rupee. All that I have so far said on this point is that the rupee is definitely over-valued at 18d. and that as a consequence India's prices, production and trade have been disastrously affected. I have never said that the overvalued rupee is the only cause of the present economic distress, but I do believe, it is, as far as India is concerned, the most important, and, am also emphatically of opinion that the remedy lies in the devaluation of the rupee. Here, again, it would be reply to say that there are other measures which would be beneficial. I never denied them, in fact, I myself have always insisted upon the Government the necessity of taking various measures for remedying the existing situation. The devaluation of the rupee, I admit, would not be the complete remedy for the present situation, but nobody can deny that it is necessary to augment our balance of trade, to assist export producers and sustain the internal price structure. Devaluation is only one item in a connected plan of recovery, and to achieve complete success the Government must take active steps to promote an expansion of credit and adopt a bold banking policy. Severe adjustments in costs are necessary and Government's uneconomic expenditure should be drastically reduced so that larger amounts may be available for an extended programme of public capital expenditure. Money rates in India have to some extent been reduced, but the necessary economic confidence has not yet been created for the country to take productive advantage of them. In addition to devaluation the Government will have to stimulate the improved outlook and the upward trend in prices by a comprehensive scheme of public expenditure, which could be expected to give a spurt to economic activity.

I feel that the over-valued rupee is the greatest impediment in the path of India's economic recovery, and that unless it is removed, our economic life cannot be stimulated to the required extent, neither will other measures or favourable circumstances yield the fruits of which they may be otherwise capable. The present controversy is a clear and simple proposition. Is the rupee over-valued? I hope I have completely established that it is. If so, the demand for its direct devaluation would remain unchallenged. You cannot get over it by merely enumerating scores of other useful devices, whose utility or necessity is not in question.

Our critics have been at pains to draw elaborate attention to the difficulties in the way, which really means the elaboration of hundred good reasons for doing nothing. I hope I have been able to meet all of them and also to firmly establish the case for immediate action in the direction of devaluating the rupee.

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CURRENCY LEAGUE OF INDIA

Bulletin No. 19

**Proceedings of A Public Meeting of the Citizens of Bombay
Held at the Blavatsky Lodge on Tuesday the 23rd
January 1934, under the Presidentship of
Seth Mathuradas Vissanji Khimji.**

Speech of Sir Montagu de P. Webb, Kt. C. I.E., C. R. E.

**Jehangir Wadia Building,
Esplanade Road, Fort,
BOMBAY.**

Currency League of India

OBJECTS.

1. To encourage and provide facilities for a systematic and impartial study of questions relating to currency, so that currency policy best suited to the interest of the country may be evolved.
2. To educate and organise public opinion with a view to opposing the continuation of the 18d. sterling ratio as is sought to be done through the Reserve Bank Bill; and to bring about an immediate devaluation of the rupee.
3. To do all other things for the promotion of the above objects.

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Among the prominent gentlemen present were :—

SIR PURSHOTAMDAS THAKURDAS KT., C.I.E. M.B.E.

MR. H. H. SAWYER,

MR. A. D. SHROFF,

MR. CHUNILAL B. MEHTA,

MR. JAMNADAS M. MEHTA,

PROF. SOHRAB R. DAWAR,

MR. L. R. TAIRSEE,

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MR. SAKALCHAND SHAH,

MR. SARABHAI PRATAPRAI,

MR. J. K. MEHTA.

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Currency League of India.

BULLETIN No. 19.

Speech of Seth Mathuradas Vissanji Khimji, the Chairman of the meeting:

FRIENDS,

I have great pleasure, both on behalf of the Currency League and on your behalf, to welcome Sir Montagu Webb in our midst today. I am sure Sir Montagu needs no introduction to this audience. Those who have even cursorily followed the Currency and Monetary controversies are aware of the contributions made by him in the course of the last quarter of a century to the same. Sir Montagu has, if I may say so, devoted a life's study to the question, and, what is more, has shown a remarkable capacity for making a synthesis of theories and practice. We may or may not agree with all the views of Sir Montagu but we recognise in him a man of original thinking on the subject and of dynamic potentialities in his powers for publicity and propaganda. I am sure that the Currency League has in him a powerful ally and an ardent publicist.

I cannot pass over this occasion without giving public expression to our sense of gratification at the refreshing candour of our European friends who have supported the Currency League. I only wish that in all spheres of public and commercial activities our European friends who claim to have a vast stake in the country would cease to consider themselves as sojourners and view all questions from the one and only criterion possible, viz: the best interests of the country.

I am told that there are many Europeans in this country who share the public view on the question of currency and exchange policy of the country, but they are for obvious reasons keeping back, and chafing in private at the obstinate stand of the authorities that

be. I can only say that they are doing a distinct disservice both to themselves and to those, whom by their apparent indifference, they encourage. I do not want to stand between you and the distinguished speaker of the day by any lengthy speech on the subject of this evening. But I must take this occasion to publicly announce that the League does not consider this question of the external value of the Rupee as settled even for the immediate present, by the vote of the Legislature on the ratio and Exchange clauses of the Reserve Bank Bill. Many settled facts have in the past been unsettled and the League hopes that this adverse vote will only help to give the movement the necessary momentum to get this fact also unsettled sooner than later.

I will now request Sir Montagu to address you.

Speech of Sir Montagu de P. Webb, Kt., C.I.E., C.B.E.

DE-RATE or DE-GRADE ?

Mr. Chairman, Ladies & Gentlemen,

Three months ago, when I was in England, I received a telegram from the Currency League of India inviting me to accept the office of Vice-President of the League. The telegram stated that the object of the League was to educate public opinion regarding the ratio of the rupee to sterling, and the desirability of immediately de-rating the rupee to some figure better suited to present circumstances in, and out, of India, than 1s. 6d.

As my own conclusions in these matters were entirely in sympathy with these objects, I readily accepted the honour which the Currency League had done me and became one of the League's vice-Presidents.

On my arrival in Karachi at the end of November, I at once set to work to form a Karachi Branch of the League. That was completed early in December; and I then proceeded to New Delhi where, in the gallery of the Assembly, I listened attentively to the debate on the Reserve Bank Bill.

Although there is no urgent economic need, in my opinion, for a Central or Reserve Bank in India at the moment, political considerations make such a Bank desirable; and I, therefore, when or writing publicly, have given the Bill my support on general speaking grounds.

But the Bill has one very grave defect,—a defect so serious that I regard it as an outrage on India. Although this is a silver-money country which grew to greatness (about 1890 our trade was larger than that of all the British Dominions put together), by aid of silver money, and open silver Mints, the British Government who practically drafted the Bill, do not propose to allow India's Reserve Bank to deal in silver, or even to hold silver bullion as part security against India's Paper Currency. It can hold **Hundis**—it can even hold foreign bills payable in a foreign currency on the other side of the world, against paper currency circulating in India; but it is not allowed to hold silver bullion! No greater blow has been aimed at India's monetary system since the Indian Mints were closed to the free coinage of silver forty years ago, thereby depriving millions of the poor of this country of three-quarters of their savings.

But this was not the matter with which the Currency League were chiefly concerned. The League were chiefly concerned with Clauses 40 and 41 which in effect, stereotyped the sterling exchange ratio at 18d. notwithstanding the very widely held belief (now shared by many expert Europeans as well as Indians), that this ratio was wrong, and unfair to India.

It may be questioned whether the moment, when Government were trying to rush through the Reserve Bank Bill the shortest possible time, was the most appropriate moment for changing the ratio of the rupee to sterling. It was certainly a most suitable moment for making the strongest possible protest against a continuance of the over-rated rupee seeing that most other countries had de-rated their currencies, and that Japan, in particular, was undermining our trade in all directions, largely by the aid of their depreciated Yen.

Government could have greatly lessened public hostility to Clauses 40 & 41 by making them read that the proposed Reserve Bank of India shall buy and sell sterling at the current legal rate of the day, without making any mention of Sh. 1/6 or any other rate. This would have fully satisfied the requirements of the case.

But, as you all know, the Zoological Gardens contain no animal more stubborn than a Government Department, when called upon to correct a blunder and change to the right direction. And so, although every expert, in and out of Government service, knows very well that Sh. 1/6 is wrong, and will have to be corrected sooner or later, Government in the Legislative Assembly, by aid of its own Officials and a few tame Yes-men, carried their Sh. 1/6 Clauses off the Bill.

I listened most carefully to the Finance Member's final defence of the Sh. 1/6 clauses. As a clever effort in the gentle art of trailing the red-herring, it won by unstinted admiration. But it contained not a single sound argument in favour of Sh. 1/6. The final appeal to consider the pathetic condition of the poor labourers in the fields, who, it was asserted, would not benefit by a single pie, even if the rupee were de-rated to Sh. 1/4, was completely nullified by the subsequent admission that those who fed the labourers, and lent money to ryots, Zemindars and others, had not been able to recover what they had lent,—had, in fact, acted as "Shock-absorbers" whose sufferings and losses Government would have seriously to consider!

And just as I heard no sound argument in support of the Sh. 1/6 ratio in the Legislative Assembly, so I have heard no sound argument anywhere else. I have visited Lahore, Old Delhi, Cawnpore, Madras and Calcutta. In all those places I have discussed the present economic situation with the leading brains—Indian as well as European. I have pleaded for more rupees for the people (which would quickly follow a de-rating of the rupee at least so far as all Indian products sold overseas were concerned). And I have advocated a re-opening of the Indian Mints to the free coinage of silver in cooperation and conjunction with the United States of America (which would give the Indian masses still more rupees and purchasing

power for their three thousand million ounces of silver ornaments and silver hoards would be trebled in value, and convertible into unlimited legal tender rupees) and with very good results.

For my tour around India has been most encouraging in that it has revealed to me that there are quite a large number of responsible people—Europeans as well as Indians—who believe in de-rating the rupee and re-opening Mints. I was particularly surprised with Calcutta where I found strong support in unexpected quarters—European as well as Indian. Patriotic Indians must not feel surprised however if they do not receive open support in these matters from European Chambers of Commerce. In the first place, such Chambers are composed of mostly of Firms (not individuals) whose headquarters are on the other side of the world. And in the second place, individuals are not authorised to take action or give votes on a currency matter that looks on the surface almost revolutionary.

I have met many firms selling European manufactured goods in India, who actually imagine that an unnaturally high exchange like Sh. 1/6 is an advantage to them. They do not realise that the over-valued rupee hinders exports, and so tends to leave the country-side so short of money that it has nothing left to spend on imports. Let such Firms compare the volume of their import business today with that of the pre-war days, or of even five years ago, and they will realise that India's over-rated rupee and unduly depressed price-level are paralysing and killing business.

And then, too, there are individuals (including servants of Government) who do not look beyond next month's remittance to their families in England. They are horrified at the idea of the rupee being re-rated at, say Sh. 1/4. They forget the hundreds of Europeans and others who have lost their jobs altogether through the terrible shrinkage of trade, and the probability of their own futures being cramped, or prematurely cut short.

But do not let us deceive ourselves. Do not let us imagine that the Sh. 1/6 rupee is the chief cause of all our troubles, or that every difficulty would disappear were the ratio to be suddenly dropped to

Sh.1/4. The present economic catastrophe is world-wide. Experts have given us a dozen explanations of it. College Professors tell us of the passage of the "trade cycle" and that we have just passed the lowest point. Other learned men refer to the progress of mechanical invention, and of science in breeding new kinds of grains, seeds, cotton and other fibres better in quality and more prolific than before. Ordinary business men talk of the Great War and the universal disturbances caused, production turned upside down, over-production here, under consumption there, and so on,—tariffs, quotas, financial restrictions. America's "Technocrats" try and scare us with talks of the amazing development and output of machinery which will soon work almost entirely by itself, so that there will be no need for producers, the only need will be consumers!

Don't allow yourself to be disturbed by this Babel of voices. The great fact of today is that there is **more of everything in this world today except money-tools in the hands of the people.** Financiers, Bankers and gold money monopolists in the West have so arranged matters that there is not now half enough money in actual use; and everybody is buried beneath masses of indebtedness that neither individuals, companies, local bodies, nor Governments themselves can possibly repay; whilst private persons, as prices fall, drop out of employment; trade shrinks; everybody erects defensive tariff walls, quotas, financial obstructions and restrictions, and the whole world slides downwards in the direction of universal bankruptcy.

The first measure of relief that we here in India need, is a de-rating of the rupee,—a restoration of the rupee to the relation at which it stood with sterling for nearly 20 years. That will give more rupees to Indian exporters and will tend to restore rupee prices to the level at which they stood.

The only alternative to this is a general policy of DEGRADATION. **Everything and everybody must be de-graded to the levels of by-gone years.** It is no use Government endeavouring to save themselves by imposing utterly unsound taxes like the Export Duties on hides and skins, or heavy duties on simple articles of food like salt, wheat, sugar, etc. Our present excessively heavy import

duties are simply encouraging smuggling on all sides, whilst sur-charges on railway freight income-tax etc., are killing the goose that lays Government revenue eggs. All these crushing burdens will do nothing but harm all round. **Government must de-rate the Rupee or de-grade everything and everybody.** Postal and Railway servants have already been sacked by the thousands, and all Departments are cutting down their activities. Even the Bombay Corporation and the Bombay Port Trust are, I notice, reduced to temporary bankruptcy; and the Bombay Government is not far from the same condition. It is all part of the penalty paid for an over-rated Rupee.

You will remember that one of the functions of Money is to measure values. Our Rupee of today is like a maund weight that has been secretly and surreptitiously increased to two maunds. Every agriculturist and many other producers are being defrauded of a large portion of the sweat of their brow by the use of a false money measure. And so long as Government remains a silent and helpless accessory to this transparent swindle, I see no hope for the toiling millions of India.

We must have more rupees in use,—partly by derating but chiefly by re-opening India's Mints,—so as to restore prices to their level of five years ago, or we perish.

A few weeks ago, Professor Gilbert Murray, lecturing before the Historical Society at King's College, London, measured up our modern civilisation in comparison with the great civilisations of the past, and found us wanting. He accused us of "bristling with fashionable superstitions" (that includes the 1s 6d rupee!), yet "haunted by depression".

I am not a sufficiently learned historian to venture to judge whether Professor Gilbert Murray is right or wrong.

But I do say this that there is something very wrong with the British Government, and the British people, if they tolerate any longer the use of a British Monetary measure which forces the agriculturist and other producers to give up nearly twice their fair share of the

products of their labour in payment of land revenue, Taxes, and other fixed charges. No wonder we are heading for ruin!

My final words therefore are to congratulate the Currency League on its good work already done. Keep of good cheer and press forward your demand for an immediate de-rating of the rupee. And I urge you to couple with it the re-opening of the Indian Mints to the free coinage of Silver in conjunction and co-operation with the United States of America.

* * * * *

In moving a vote of thanks to the lecturer **Sir Purstotamdas Thakurdas** made the observation that so long as India was not in a position to manage her own affairs regarding currency and finance, the forthcoming reforms will not be worth anything.

Reprints of Statements Submitted
by Members of J. P. Morgan & Co.
to Senate Committee on Banking
and Currency at Its Hearings in
Washington, May 23 to June 9, 1933



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REPRINTS OF
STATEMENTS SUBMITTED BY
MEMBERS OF J. P. MORGAN & CO.
TO SENATE COMMITTEE ON BANKING AND CURRENCY

In the course of the Washington hearings (May 23rd to June 9th, 1933) before the Senate Committee on Banking and Currency, Mr. J. P. Morgan and his partners submitted for the information of the Committee certain facts and observations, bearing upon the conduct of the business of private banking, and upon certain phases of the Senate Inquiry itself. These views have now been put together and are herewith presented for your information, as follows:

- A. Opening statement submitted by J. P. Morgan on May 23, 1933; (Page 2)
- B. Statement as to the Firm's public offerings of investment securities since the World War, submitted by George Whitney on May 25, 1933; (Page 9)
- C. Final statement made in behalf of the Firm by J. P. Morgan on June 9, 1933; (Page 15)
- D. Observations as to the course of financial and economic matters in the United States since the World War, submitted by R. C. Leffingwell on June 9, 1933. (Page 22)

A.

OPENING STATEMENT SUBMITTED BY J. P. MORGAN
ON MAY 23, 1933

Our desire being to be of use to the Committee, I have ventured to frame a brief statement of my views on the subject of the duties and uses of private bankers, which I hope the Committee will receive as an outline and, if it so desires, discuss with me or with some of my partners.

In the first place, what are the differences between the rights and privileges of a private banker and an incorporated bank? As I see it, they consist chiefly in the fact that an incorporated bank receives from the Government, Federal or State, from which its charter comes, certain privileges, and for those privileges it has to conform to certain laws and regulations of the Government, applying only to the incorporated bank's business. The private banker has none of these privileges, but as he does not have to conform to any special Government regulation, he has a somewhat greater freedom of action.

The private banker is a member of a profession which has been practiced since the middle ages. In the process of time there has grown up a code of professional ethics and customs, on the observance of which depend his reputation, his fortune and his usefulness to the community in which he works.

Some private bankers, as indeed is the case in some of the other professions, are not as observant of this code as they should be; but if, in the exercise of his profession, the private banker disregards this code, which could

never be expressed in legislation, but has a force far greater than any law, he will sacrifice his credit. This credit is his most valuable possession; it is the result of years of fair and honourable dealing and, while it may be quickly lost, once lost cannot be restored for a long time, if ever. The banker must at all times so conduct himself as to justify the confidence of his clients in him and thus preserve it for his successors.

If I may be permitted to speak of the firm, of which I have the honour to be the senior partner, I should state that at all times the idea of doing only first class business, and that in a first class way, has been before our minds. We have never been satisfied with simply keeping within the law, but have constantly sought so to act that we might fully observe the professional code, and so maintain the credit and reputation which has been handed down to us from our predecessors in the firm. Since we have no more power of knowing the future than any other men, we have made many mistakes (who has not during the past five years?), but our mistakes have been errors of judgment and not of principle.

Another most important duty of the private banker is to take special care that his banking position in regard to his deposits is at all times sufficiently strong, knowing as he does that none of the aids provided by the Government for incorporated banks, such as the Federal Reserve System or the Reconstruction Finance Corporation, are at his disposal.

The private banker has at least one other duty: he must be ready and willing at all times to give disinterested advice to his clients to the best of his ability. If he feels

unable to give this advice without reference to his own interests he must frankly say so. The belief in the integrity of his advice is a great part of the credit of which I have spoken above, as being the best possession of any firm.

So far as to the duties. I will now pass on to the uses of private bankers. These seem to me to be closely related to the fact that, as they are risking their own money and doing their own work, they may properly undertake certain responsibilities and businesses which the management of an incorporated bank might not be justified in dealing with. Subject to the paramount need of keeping their banking position toward their depositors sound and liquid, they can in a very prompt and effective way assist in the development of the industries and productions of this largely industrialized world. They can also come to the aid of a general situation, or of their friends and clients, in times of panic and distress, to an extent that an incorporated bank might well feel it had not a right to do with its stockholders' money.

Another very important use of the private banker is to serve as a channel whereby industry may be provided with capital to meet its needs for expansion and development. To this end the private banker can serve well, since, as he has at stake not only his clients' interests but his own reputation, he is likely to be specially careful. If he makes a public sale and puts his own name at the foot of the prospectus he has a continuing obligation of the strongest kind to see, so far as he can, that nothing is done which will interfere with the full carrying out by the obligor of the contract with the holder of

the security. To accomplish this it is frequently desirable that the private banker should be a director of the company, the securities of which he has sold.

As to the charge that is frequently and, as I believe, carelessly made that bankers force their way into boards of directors, I can only say that, in my experience of over forty years, I cannot remember any partner of the house taking a directorship except at the earnest request of the board of directors of the company in question. It is often useful for the directors of a company who are not financial experts to have an expert of that sort, in whom they have confidence, at hand for consultation. This is why I regret the tendency of so much present day legislation which endeavors to prevent bankers from being directors of one thing or another; or which throws on directors such liabilities for errors for which they could not be responsible as to make it too dangerous for any man of experience or means to assume such responsibilities.

We must not lose sight of the fact that the steady supply of capital for industry is an essential of our system, and that anything which may hinder the flow of such a supply, or needlessly diminish the confidence of the investor in the safety of his investments, is undesirable. At the present moment, owing to the destruction of confidence in this time of depression, there is no flow of capital into industries, and consequently no investment possible for the savings of the people which are turned over daily to savings banks and insurance companies to be invested. Just at present these are the only sources from which industry can obtain its needed capital, as the savings of the incomes of private persons have been so greatly

reduced by the depression and by the extreme weight of taxation on incomes and estates; and as the depression, for the first time as far as I know in the history of the world, is so wide spread, no country can lend money in any other.

Though, at the present time, there is no demand for capital for industry, this condition will pass, and we should not by any means force the organization for distribution of securities out of business, lest, when there is again a legitimate demand for capital, it be found that the machinery of distribution has disappeared. No private banker whether he is (as we are) a wholesale merchant of securities, or whether he deals directly with the ultimate investor, could continue in the business if he had no other sort of business to fall back on in such times as the present.

The question has been raised whether a private banker should be permitted to accept deposits. The laws of the State of New York very wisely, as I think, and under careful restrictions have sanctioned the practice. Those restrictions prevent, among other things, our holding ourselves out as depositaries for the public and from paying interest on deposits of less than \$7,500. The bulk of our deposits has come from our having done work for some client, or because we are the paying agents for coupons, or the custodians of sinking funds. If we, for instance, should be deprived of the right to receive deposits which clients wish to leave with us, we should very probably have to disband a large part of our organization and thus should be less able to render in the future that important service in the supply of capital for the develop-

ment of the country which we have rendered in the past.

In regard to the presence of private bankers on the boards of directors of other banking institutions, I believe it to be true that none of the directorships held by any private banker in other banking institutions is held at his request, but because of the strong desire of those in charge of the institution of which he becomes a director. This certainly is the case in our own office and I believe in other cases too, although of course I cannot speak for anybody but our own firm. Personally, I have always been averse to banking directorships for my partners, but I felt constrained reluctantly to consent, because of my belief that it is one of the duties of a private banker to be of use in the general affairs of the community, and that the only way people can be helped is in the way they wish to be helped. Therefore, if friends in whom we have confidence ask us to serve them by advising with them, we are bound to give them the best advice we can. No law could prevent anyone from discussing problems with, and seeking advice from, friends in whose judgment he has a confidence which is the result of years of experience and co-operation, and I do not see any need for legislation which makes such consultation more difficult.

The private banker is also useful in offering a sort of neutral territory where, at times, the management of the incorporated banks may meet and discuss the general problems without rivalry or competition. I believe if you were to ask the heads of all the great banks in New York who have had experience of both good and bad times, you would be assured that the private bankers, by

offering that neutral ground, have served a very useful purpose, and would have been much missed had they been forced out of business by law, either State or Federal.

To sum up, I state without hesitation that I consider the private banker a national asset and not a national danger. As to the theory that he may become too powerful, it must be remembered that any power which he has comes, not from the possession of large means, but from the confidence of people in his character and credit, and that that power, having no force to back it, would disappear at once if people thought that the character had changed or the credit had diminished—not financial credit, but that which comes from the respect and esteem of the community.

B.

STATEMENT AS TO THE FIRM'S PUBLIC OFFERINGS OF INVESTMENT
SECURITIES SINCE THE WORLD WAR, SUBMITTED BY
GEORGE WHITNEY ON MAY 25, 1933

It may be of interest to the Committee to give a brief summary of the public offerings of securities, foreign and domestic, that J. P. Morgan & Co. have made since the World War.

For the period from January 1, 1919, to date, we have offered to the public, in almost every instance in association with others who have joined us in such financing, securities to the aggregate amount of \$6,024,444,200, of which \$2,098,953,400 have been retired. Manifestly, it would have been impossible for us alone to have handled such a tremendous volume but in every instance the public offering was made over our name and in most instances over the names of others as well. For convenience we have listed these public offerings under six groups:

GROUP I

OBLIGATIONS OF FOREIGN GOVERNMENTS AND FOREIGN
CORPORATIONS

These public offerings aggregate \$2,232,757,000 in principal amount. Of these obligations 40% or \$883,-854,400 have been retired either by payment at maturity, by redemption at prices ranging from 107 $\frac{1}{4}$ % to 115%.

or by purchase at various prices through sinking funds. There remain outstanding bonds or obligations of Foreign Governments or foreign obligors to the aggregate principal amount of \$1,348,902,600. Of these, even in these depressed times, \$446,690,500, or 33% were on May 11, 1933, selling above the original public offering price. The average offering price to the public of these obligations was 94.69%, and the average current market price on May 11, 1933, was 81.07%, a decline of less than 13¾ points. (The figures which I am giving in this group and in subsequent groups for public offering prices and for current market prices is a weighted average based on the total amount of bonds remaining outstanding.) No investor, who in this period purchased any of these bonds which we offered to the public, has failed to receive the regular payment of interest at the full rate in United States currency or the regular payment of principal when due. The only German bonds that we have offered were the German Government 7% Bonds and 5½% Bonds, both of which were issued in pursuance of international plans for German reconstruction and under the auspices of the Great Powers.

GROUP II

RAILROAD COMPANY BONDS

The total principal amount offered to the public aggregates \$1,845,639,300. Of these about 29% or \$536,814,500 have been retired, substantially all by payment at maturity, by redemption or by conversion, as few railroad issues have sinking fund provisions. Of the balance, namely \$1,308,824,800, only 7.2% were on May 11, 1933,

selling above their original issue prices. The average price at which these bonds were offered to the public was 96.58%; the average current market price on May 11, 1933, was 63.94%, a decline of 32.64 points or about one-third. Of these issues, \$125,079,000 are in default in payment of interest or principal, namely \$45,000,000 Florida East Coast Railway First and Refunding Mortgage 5% Bonds; \$18,879,000 Mobile & Ohio Railroad Company Refunding and Improvement 4½% Bonds and Secured 5% Notes, and \$61,200,000 Missouri Pacific Railroad First and Refunding Mortgage 5% Bonds, Series I. This aggregate amount is 6.78% of all railroad bonds offered and is less than 2.1% of the total of all classes of securities offered by J. P. Morgan & Co. in this period.

GROUP III

PUBLIC UTILITY BONDS INCLUDING OBLIGATIONS OF PUBLIC UTILITY HOLDING COMPANIES

The aggregate principal amount offered to the public is \$1,074,750,000. Of these \$268,269,800 or 25% have been retired, in the main, by conversion, by redemption at prices ranging from 105% to 110% or by payment at maturity. There remain outstanding of the bonds so publicly offered \$806,480,200 in principal amount. Of these bonds \$693,480,200 in principal amount or 86%, on May 11, 1933, were selling above the public offering price. The average price at which these bonds were offered to the public was 97.08%; the average current market price on May 11, 1933, was 95.68%, a decline of 1.4 points. None of these bonds is in default in the payment of principal or interest.

GROUP IV

INDUSTRIAL COMPANY BONDS AND INDUSTRIAL COMPANY
PREFERRED STOCK

The aggregate public offerings in this group amount to \$578,297,900. Of these securities, \$397,046,700 or 69% have been retired, again, mainly by redemption at prices ranging from 100½% to 125%. There remain outstanding bonds and preferred stock to an aggregate amount of \$181,251,200. Of these \$123,208,000 or 68% on May 11, 1933, were selling above the public offering price and \$42,187,000 or 23% were selling within ten points of the public offering price. Industrial company bonds and preferred stock now outstanding, which were offered to the public, were offered at the average price of 99.28%. The average current market price on May 11, 1933, was 99.07%, a decline of about 2/10 of a point. There has been no default in the payment of principal or interest on these bonds or in the regular payment of dividends on the preferred stock.

GROUP V

MUNICIPAL BONDS

The amount of public offerings in this group aggregates \$160,000,000. Of these, \$1,000,000 have been retired and the balance remains outstanding. The average public offering price was 101.64%. The average current market price on May 11, 1933, was 82.83%, a decline of about 18.8 points. None of these bonds is in default in the payment of principal or interest.

GROUP VI

RAILROAD HOLDING COMPANY BONDS

These aggregate \$133,000,000 or 2.21% of the total public offerings of securities made by my firm since January 1, 1919. Of these \$11,968,000 have been retired. The balance, namely \$121,032,000 are selling substantially below the public offering price. The average public offering price of these bonds was 97.25% and the average current market price on May 11, 1933, was 50.94%, a decline of about 46½ points. None of these bonds as yet is in default in the payment of principal or interest.

J. P. Morgan & Co. employ no bond salesmen and have never adopted any methods of high pressure salesmanship. We have distributed these securities through syndicates or selling groups consisting in cases of the largest issues of as many as 1,100 or 1,200 retail and distributing houses, large and small, scattered throughout the country and invited by us to join in the offering of these securities because of their distributing ability and their standing and reputation in their own communities. We have believed in this method of distribution and have consistently adhered to it.

Of the issues now in default, namely bonds of the Florida East Coast Railway, and of the Mobile & Ohio Railroad, and of the Missouri Pacific Railroad, we ourselves purchased and still hold bonds of those issues or of issues junior to them on which our aggregate losses, based upon the difference between our purchase price and

the present market value, are greatly in excess of the profit that we made from these offerings.

In the case of securities of railroad operating companies and public utility operating companies, the price paid to the obligor is a matter of public record. In the case of the foreign issues offered by us since January 1, 1920, the price paid to the obligor was made public by us in the testimony submitted to the Senate Finance Committee in December, 1931. In the case of all issues during the five-year period from January 1, 1927 to January 1, 1932, the spread between the price paid to the obligor and the offering price to the public has been given in the detailed record which we have furnished the Committee. We are not opposed to, but are heartily in favor of publicity and disclosure of the gross profit or commission paid in respect to all securities offered to the public as is proposed by the legislation which you are now considering.

As to the group of bonds which have shown the greatest declines, namely railroad and railroad holding companies, it may be pertinent to point out that in the case of the railroad issues every issue of bonds of a railroad operating company issued after June 27, 1920, was authorized by the Interstate Commerce Commission as being in the interest of the public and a minimum price fixed at which these bonds could be sold; and in the case of the railroad holding company issues, which were all collateral trust issues secured by stocks or bonds or obligations of railroad operating companies, the collateral behind the bonds at the time of the issue and the financial strength of the company making the issue seemed to afford more than ample security.

C.

FINAL STATEMENT MADE IN BEHALF OF THE FIRM
BY J. P. MORGAN ON JUNE 9, 1933

As the hearing draws to a close we desire to thank the Committee for their patience and courtesy and to make a brief statement upon certain points which, we believe, are not yet fully clear. The first point relates to the matter of income taxes.

Income Taxes. The precise facts as to our payment of income taxes seems to have been misunderstood by a portion of the community. Since 1917, the partners of our firm have, as stated, paid upwards of \$51,000,000 in income taxes. In the three years 1927, 1928 and 1929 our income tax payments exceeded \$22,000,000. In 1929 alone they were approximately \$11,000,000.

In all these cases a substantial part of the taxes paid by us were due to net capital gains which, under the law, had to be added for income tax purposes to our regular income. In the years 1930, '31 and '32 our capital losses (deductible under the law, just as previously the profits had been added) were such as more than to wipe out all our income, and leave nothing taxable. Income taxes are after all payable upon income and not upon deficits.

We trust these facts will now be clearly understood, because at first blush there can be no doubt that many persons, failing to realize that during prosperous times we had paid heavy taxes upon our profits, felt it to be

unjust that during the last three years we have paid no income taxes; again failing to realize that our losses had more than wiped out our taxable income.

The second point upon which we wish to comment relates to our conduct of certain features of our security business.

Investment Securities. As investment bankers we are merchants of securities, and our normal business in that field is the bond business. In the post-war period we have issued upwards of \$6,000,000,000 of bonds, together with a very few preferred stocks. A third of the bonds have already been paid off and retired. Little more than 2% thereof are in default, and none of our foreign bond issues has defaulted in payment of interest or principal. We issued no loans for Central European countries except two important international reconstruction loans each for Germany and Austria. The only outstanding South American loans we issued were those for the Argentine Republic. Of our domestic issues the greatest single category consists of bonds of American railroad companies issued with the approval of the Interstate Commerce Commission within price limits determined by it.

Such investment securities we offer to the general public over our name. Here we receive a limited compensation averaging approximately $\frac{1}{2}\%$, an average which applies to our foreign as well as our domestic loans. We have no salesmen and for the underwriting and distribution of investment securities, we enlist the co-operation of banks and dealers.

Financing of Common Stocks. The whole amount of the common stock financing done by us during the post-war

period does not exceed three and one-third per cent of the total amount of investment securities we issued in the period. Despite, however, the small proportion of our securities business which this type of financing represents, it would appear that these few transactions have largely occupied the attention of these hearings.

The provision of new equity capital, or the distribution of large holdings of common stock, is a useful and necessary operation. Specifically, we believed in the future of the Alleghany Corporation, as a step towards ultimate consolidation of valuable and coherent railroad properties under the policy laid down in the Transportation Act of 1920. We believed in the United Corporation, as offering a composite and diversified minority investment in homogeneous and non-competitive public utility properties. We believed in Standard Brands, as furnishing a logical grouping of products salable by daily delivery. We believed in Johns-Manville, as an admirable and tested business, long, well and favorably known to us.

However, as merchants of investment securities of established character, we do not consider that it is sound practice for us to offer common stock over our own name to the general public through banks and dealers. Consequently, in the few equity operations which we undertook, we invited to join us, not primarily institutions and dealers who distribute investment securities to the general public, but individuals capable of sharing and understanding the risk; and with one minor exception we asked them to join us in the stock purchase at the same price that we paid. It would not have been prudent banking to keep all these common stocks in our own portfolio.

We wished, therefore, to sell part of them as a business man's investment to those having knowledge of business and general conditions, who would understand exactly what they were buying and who, as joint venturers, would share with ourselves the profit and the risk of the stock purchase.

Prices. With one minor exception, we offered these stocks at the same prices at which we had purchased them—that is to say at prices which were considered fair by the corporations and individuals from whom we purchased. We, too, considered these prices fair. Speculative market quotations did not enter into our calculations. As a matter of fact in most instances there was no stock in existence and no market for the stock at the time the sales price was determined. The narrow and speculative market existing in one or two cases formed no basis for a fair valuation. In the Alleghany case much has been made at this hearing of the “when issued” market, which sprang up after we had fixed the price at which we would sell the stock, but about the time a few of the offers were made. As a matter of fact at the same time 500,000 shares of the stock were offered publicly at \$24 a share, a far better indication of the market value of the stock than the narrow and speculative “when issued” market.

No responsible banking house would change the issue price from day to day to reflect “when issued” market quotations, or would advance the price against a subscriber because of some slight delay in his receipt of the offer of sale. Every successful issuer, from the Government of the United States down, has the experience of seeing its issues quoted above the issue price while the

offering is still open, and certainly before the date for payment by subscribers is reached. It is not the practice of responsible bankers and dealers in pricing a new equity issue to charge all the traffic will bear—it would be inexcusable to do so in an inflation market such as prevailed in 1929—but rather to name a fair price (based on actual and expected earnings, not speculative market quotations), and stick to that price with all those invited to subscribe to the original issue, whether public or private.

It is true that the failure of the then Federal Reserve Board to take the necessary measures to control the inflation in time encouraged the speculative frenzy, which carried the market quotations out of bounds—so that they were too high in 1929 and too low later. Only ignorance of good business practice could explain the suggestion that, in naming what we thought a fair issue price, and sticking to it in spite of a frenzied “when issued” quotation, we were doing anything but adhering to the only possible rule of fair business dealing.

Customers Lists. Our lists of private subscribers were naturally composed of men of affairs and position; but they were selected because of established business and personal relations, and not because of any actual or potential political relations. We have never had occasion to ask for favors from legislators or persons in public office, nor have we ever done so. We conduct our business through no means or measures of “influence” or favor. We rely upon such confidence as our clients and the business community generally may repose in us.

The same is true of our loans to personal clients. It

has never before been considered wrong to borrow money or to lend it. Our loans were to men of high standing against ample security. The unprecedented depreciation in securities which has since occurred has caused certain of the borrowers heavy losses, against which we have created ample reserves.

It seems extraordinary that, after seventy years devoted to building up a good will which has made it true that our clients are men of affairs and of leadership, we should be taken to task for perfectly sound, honorable and straightforward business transactions with them, simply because chance has brought some of them into high office and mischance has impaired the fortunes of others.

It has never during the firm's existence, been thought discreditable to be a customer of J. P. Morgan & Co., whether as a depositor, borrower or subscriber. We protested vigorously against the breach of what we have always assumed to be the confidential relationship of the banker and his customer. The result of this action has been an unwarranted criticism upon our customers. This unjust criticism we feel deeply.

Banking. Our banking business is our principal business. As bankers our first duty is to protect our depositors, and we do so by keeping ample reserves in cash and in United States Government securities. We do not mingle investment business and our banking business, but keep our deposits separate and fully protected by strictly banking assets.

We have always disapproved of the practice of making

call loans "for others," and with the exception of a few isolated cases have not practiced it.

We have not approved the practice of indiscriminate competition for deposits. In 1918 the New York Clearing House banks and ourselves took the lead in suggesting that deposit rates be adjusted in a definite relation to the Federal Reserve Bank rate. This agreement among the Clearing House banks put an end to the wasteful and dangerous practice of buying deposits in competition with one another, and no doubt contributed to the liquidity and soundness of the general banking situation in New York City in these trying times.

Statements of Condition. We have been in the habit of furnishing a statement to the Federal Reserve Bank of New York since soon after the Federal Reserve System was organized, and are ready to be examined by the Federal Reserve Bank at any time and as often as may be desired. We do not approve private bankers publishing their statements, because such publication tends to advertisement and solicitation of deposits from the general public. But the question does not greatly interest us one way or another. Our business comes to us because our depositors, relying upon a banking experience covering more than three generations, put more faith in our banking reputation, our resources, and our methods of doing business than they put in the work of bank examiners, or even in the not always illuminating published statements of institutions.

D.

OBSERVATIONS AS TO THE COURSE OF FINANCIAL AND ECONOMIC
MATTERS IN THE UNITED STATES SINCE THE WORLD WAR,
SUBMITTED BY R. C. LEFFINGWELL ON JUNE 9, 1933

I. HISTORICAL

War Inflation. During the war production was stimulated to meet war needs, and currency and debts were created to represent not wealth created but wealth and life destroyed. In America alone the public debt was increased from $1\frac{1}{4}$ billion to $26\frac{1}{2}$ billion dollars, currency was increased 50% and bank credit 70%.

America Doubly a Creditor. America was before the war a creditor on current account, that is she had a big export surplus. This export surplus was immensely increased during the war. America continued to have a great export surplus after the war. At the end of the war, America, previously a debtor on capital account, had become the creditor of Europe on capital account by the repurchase of foreign-held American securities, by her acquisitions of gold, and by the acquisition by the American Government and the American people of obligations of European Governments issued for war purposes. The first great anomaly of the post-war world was this, that a creditor country on capital account was a creditor country also on current account. Europe must pay America not only for the net export of goods from America, but also the interest on Europe's net debt to America. To some extent Europe achieved this by gold exports to the United States. For the rest she had to go deeper into debt to America. This

problem was clearly stated in President Wilson's message to Congress of December 2, 1919.

Perhaps the proper thing for anyone to do, who understood this situation, was just to do nothing; to reject it, to say that the political and economic set-up left by the war and treaties of peace was impossible, that nothing could be done about it. Perhaps a reasonable man would have followed Rip Van Winkle and taken a long sleep in the Catskills, or at least with Thoreau would have rejected the system and retired to Walden Pond.

Reconstruction. That is however not the way men behave. It is not for them to file a *non possumus*, to declare that conditions created by governments, by their wars and their treaties of peace and their settlements—or unsettlements—of reparations and war debts—are impossible. It is not for them to say that the burden of debts, public and private, governmental and intergovernmental, is excessive, and that therefore they refuse to carry on. No, the man of affairs, the public spirited man, yes, even the far-seeing man, decides to carry on in spite of these adverse conditions, and knows he is fighting an uphill fight. He knows too that it is better to fight than just to lie down and quit.

So after the war, after the treaties of peace that did not bring appeasement, men of good will, men of mark in all countries set to work to rebuild the war-wrecked world so that men might live in peace, in hope, and, if all should go well, in plenty again.

One great task was to restore the currencies of the world to stability, so that business might be resumed between men and men, between nation and nation, in terms

of honest money, instead of being retarded or prevented by the lack of stable units of exchange.

Return to Gold. America first returned to the gold standard after the war in June 1919, seven months, or thereabouts, after the fighting stopped. We lost gold in the last half of 1919 and the first quarter of 1920, and were obliged to raise the discount rate to 6% in January and 7% in June of 1920, to halt the expansion of credit which had gotten out of hand when war controls were eliminated, and to protect our gold reserve. A sharp and painful deflationary process of adjustment began in 1920 and continued for a couple of years, but the inflow of gold due to our creditor position on current and capital account was promptly resumed, and a new structure of prosperity and expansion of currency and credit was founded upon it.

Gold however could not serve to settle the whole world's debit balances to the United States in perpetuity. There isn't enough gold. It was evident that the prosperity of American industry and agriculture depended, first, upon maintaining a free flow of loans and credits to Europe as a bridge to pass over the chasm between war and peace, and, second, upon a gradual adjustment of our economy to the fact that our creditor position on capital account made it necessary for us to prepare to receive increasing payments in goods and services, that is to reduce tariffs and subsidies and to permit the rest of the world to pay us what was owed.

Constructive Foreign Loans. It proved to be well within the power of banking leadership to build the bridge, to arrange the loans and credits and rebuild

the currencies. One by one, buttressed by loans or banking credits, Austria in 1923, Germany in 1924, England in 1925, Belgium in 1926, Italy in 1927, France in 1928 and Japan in 1930, returned to the gold standard, with the aid of American bankers and American investors. No one of these loans or banking credits was a thoughtless loan, or made for anything less than the most constructive of all possible purposes, the restoration of the world after the war to sound currencies and sound finance, the rebuilding of a solvent world to trade in. In all financial history there is no instance of more serious, planned, thoughtful and constructive effort in the field of finance than this American contribution to world reconstruction in the post-war decade.

The Central Banks Take Command. The financial effort to construct a bridge over the chasm between a war-time organization of the world and its peacetime organization was shared by the central banks of the world. Capital issues and private banking credits were necessary at the first stage in each country, to unlock the doors as it were. But as one country after another was restored to the gold standard, with the aid of private loans and credits, the role of the central banks became more important, and that of other bankers less important. So far as the political authorities and policies of their respective governments permitted, central banks, with their immense power over the price and volume of currency and credit, and consequently over the level of commodity prices, then dominated the reconstruction effort, rather than private banking credits and capital issues.

Deflation and Stabilization. Though the phrase "managed money" has been anathema to the principal central bankers of England, France and America, those of England and America did address themselves to the problem of monetary management, and had a right and duty to do so. Because of the war, prices had risen to something like 250% of the pre-war level, and it was evident that should it be necessary, as some believed, to submit to a deflation of prices to or below the pre-war level the gravest disaster and human suffering must be endured. After the deflation of 1920-'21, which was deemed to be sufficient and complete, monetary management by the central banks was directed to the highly desirable end of arresting the deflation at about 150% of the pre-war level, and this was accomplished with a high measure of success over a period of years so far as America was concerned.

During this period (say 1922-'27) business in this country was good, commodity prices were fairly stable, though slowly sinking elsewhere, and speculation in stocks, though it gave concern to some, had not yet got out of bounds. A vast superstructure of member bank deposits was erected on the base provided by the Federal Reserve System's gold holdings. Far from being sterile, the gold increased and multiplied itself in bank credit, which grew immensely in volume and velocity. Looking backward it seems that this period must be regarded as one of latent gold inflation here—an inflation based upon gold imports but kept under control by monetary management to some extent. Gold was paid out by the Federal Reserve Banks in the form of gold certificates

and thus kept out of the reserves. Such inflation as did take place, so far as concerned commodities, was of a negative sort, that is American prices were kept stable when world prices were falling.

England's Difficulties. America had gold in plenty and a creditor position on international account, but that was not true on the whole of European countries, which one by one returned to the gold standard. It turned out furthermore that in the case of England the wage level and the price level had become arbitrary and inelastic in consequence of the dole and the attitude of the trade unions. Thus the restored gold standard did not work in England in the old-fashioned way. That way was, when gold was flowing out, to raise the bank rate, reduce prices and wages, and curtail imports and extend exports. In fact the general strike which followed hard after England's return to the gold standard pretty much eliminated any question of defending England's gold by a dear money and deflationary policy. Indeed, no one wanted a deflationary policy, and it was the clear policy of the central banks, including our own, to arrest the deflation where it was.

Cheap Money Policy. In the forepart of 1927 it became apparent that a new deflation was setting in. The Governors, or Deputy-Governor, of the four principal banks of issue met in America towards the mid-year and apparently determined to renew their efforts to arrest the deflation and hold the line where it was. Following that conference, an active cheap money policy was embarked upon by the Federal Reserve System, in a thoughtful and statesmanlike though hazardous effort to

prevent a world-wide deflation of prices. In the last five months of 1927 and the first seven months of 1928, our gold stock was reduced by some \$500,000,000 by net exports and earmarkings of gold for foreign account. In the last five months of 1927 the Federal Reserve Bank's total bills and securities rose from \$953,831,000 to \$1,598,842,000, considerably more than a 60% increase. This increase in credit went into the securities market, there having been on the whole a falling off in general business, or at any rate no increased demand for credit in business, agriculture, etc.

Corrective Steps Inadequate. The steps taken in 1928 to check this inflation were halting and inadequate, and when, at the beginning of 1929, some Federal Reserve Banks sought to invoke the classical remedy of dear money, their proposed increases in rates were vetoed by the Federal Reserve Board in Washington. The Board hoped, by admonition and by discrimination against banks making loans on collateral securities, to control speculation without making money dear for commerce, industry and agriculture. But a cheap money policy intended to continue the business boom was not well calculated to discourage the purchase of stocks. This well-meant effort to keep money cheap and plentiful and yet control its use was responsible for the stock market excesses of the first eight or nine months of 1929 and for the resultant crash in October and November.

The Great Inflation. The cheap money policy of the last half of 1927, the indecisive policy of 1928, and the Board's veto of a dear money policy in the first half of 1929—these are the causes of the great superinfla-

tion of that period and of all the disastrous consequences. Cheap credit was let loose from the central reservoir in 1927, for a beneficent purpose but in excessive volume; and for two full years, until August 1929, the one and only certain cure, dear money, was not used. Like water the credit flowed whither it would according to the laws of its nature, and the admonitions of the Federal Reserve Board were as idle as those of King Canute addressed to the waters of the sea.

It is axiomatic that you cannot make money cheap and plentiful and prevent its flow according to the laws of its nature. When cheap credit is created at the central reservoir, it is the central reservoir which is responsible for the consequences, and not the people who use it. The people of this world in that regrettable period were like marionettes dancing on an invisible wire, subtly influenced by the excessive volume of cheap money. Irresistibly, farmers, merchants, business men and bankers responded to it, unreasoningly as they would to a drug. Equally and instantly they responded to the use of dear money as a curative when at last, too late, it was employed in August 1929.

Economic Peace Made Impossible by Governments. Aside from these monetary errors, why did the well thought-out plans for sound currencies, aided by loans and credits extended by bankers, and for price stabilization under the guidance of the central banks, fail? Because the bankers were building a bridge from the treaties of peace to economic peace, and it was not possible for the bankers, the private bankers or the central banks, to bring about that economic peace. It was not in

their field. Where they had urged lower tariffs, higher tariffs were enacted, and later embargoes were erected and ultimately exchange controls. Where they had urged readjustment of reparations and war debts, only inadequate and dilatory adjustments were effected. Europe was obliged to stop buying our goods when we stopped making her fresh loans to buy them with. Above all the unwillingness of the United States to accept the implications of its creditor position and receive payment, in part at least, of the sums due it in goods and services, made economic peace impossible. At the far end of the bridge, ten years after the Armistice, was found not peace but war, economic war. And so confidence, without which loans and credits are fruitless, was destroyed.

Inflation Stopped. When the inflation was stopped by the delayed action of the central banks in the summer of 1929, the relative stability of the commodity price level over a period of years preceding the stock market collapse of 1929, encouraged the belief that the stock market boom and break of the year 1929 were more or less isolated phenomena, and that after purging our system of the consequences of these excesses it would be possible, as it was clearly desirable, to go forward at about the same level of prices and wages without much delay. To this end every effort of the Government in power in Washington was bent; and every effort of the industries, the railroads, the utilities, and the bankers supported the effort of the Government.

Critical Periods of the Depression. The increases in central bank discount rates in the summer of 1929

stopped the inflation, and the Hatry crisis in London precipitated the panic of 1929. The efforts to avoid that panic's degenerating into a general depression appeared to be measurably successful until June 1930, when the Hawley-Smoot tariff here and retaliatory tariffs throughout the world signalled a renewed collapse, which continued until the end of 1930. After 1930 people looked forward again to the end of the depression, but were rudely awakened in the summer of 1931 by the Credit Anstalt failure in Austria, the German moratorium and the abandonment of gold by Great Britain. This was followed by the run on the dollar and a terrifically rapid deflation of bank deposits here. The passage of the Glass-Steagall Bill at the beginning of 1932 and the active open-market policy conducted for some months, followed by the Lausanne agreement in regard to reparations, resulted in some considerable improvement in the summer of 1932. It was however brought to a close by President Hoover's Des Moines speech in which he said that we had been within two weeks of going off the gold standard. The controversy with European Governments about the December 15th war debt payments further disturbed confidence, and the publication in January 1933 of the loans by the Reconstruction Finance Corporation started runs on banks which were in debt to it. Thus year after year some untoward event upset the best laid plans for recovery. Everyone had supported the efforts of governments and of central banks to arrest the forces of deflation at the end of 1929, again in 1930, again in 1931 and again in 1932, for all well understood the importance to the

human race of making the effort, and believed that success might be achieved.

The Great Deflation. However, the force of the post-war deflation, held in check by central banking monetary policy until 1929, once that policy broke down, proved overwhelming and devastating beyond the foresight of the most pessimistic. Between December 31, 1929, and March 1, 1933, (prior to the banking holiday) bank deposits in this country were deflated from \$55,000,000,000 to approximately \$39,000,000,000, or by about \$16,000,000,000. To this total must be added an estimated amount of \$4,000,000,000 representing deposits in banks which have not re-opened subsequent to the banking holiday. The deflation was world-wide. It proceeded in a vicious downward spiral of falling commodity prices, falling wages, falling employment, falling bank loans and investments, and falling bank deposits. When the banks lost deposits they called loans and sold investments. When they called loans and sold investments they lost deposits. Unless this vicious spiral of deflation could be broken, an endless chain of bankruptcies, foreclosures, unemployment and starvation must have occurred. Nothing comparable to the collapse of prices and the deflation of credit which had taken place had occurred in the memory of living men. We had reached a level so low that the burden of indebtedness created during the war and the post-war decade had become intolerable.

The Present Administration's Sound Decisions. Under these circumstances the suspension of gold payments and vigorous and persistent monetary management to ex-

pand credit became necessary. Already these sound decisions of the Administration are having a beneficial effect. If the Federal Reserve Banks combat the deflation now, they already have the means to combat an excessive reflation if it should occur. The problem of today is to arrest the disastrous deflation. If later on the excesses of '27-'29 should show any sign of recrudescence the Federal Reserve authorities, enlightened by their own errors of that period, should know how to deal with them.

II. REMEDIES

Fundamentally the depression must be attributed to the inflation and the deflation on the one hand, and to the failure of the governments to make economic peace on the other. The plans, to which our Government is now committed, for arresting the deflation and bringing about some rise in prices, and for lowering trade barriers, are sound and wise and go to the root of the matter.

No banking legislation or supervision or management can protect the public or the community against the deterioration of bank assets or security values incident to such a deflation as has been in progress. Banks and railroads have been more the subject of legislation and supervision than any other American business activities. The losses of the public in banks and railroads have probably exceeded their losses in any other field. Without extenuating misconduct or errors of judgment, these losses are due in the main to the deflation.

Nevertheless every effort should be made to perfect the mechanism, and while recognizing that no mechanism

can be proof against such a deflationary disaster as has befallen mankind, we should learn the lessons of adversity and devise such remedies as we can and such precautions as we can against the recurrence of known evils. Passing therefore from the fundamentals (monetary policy and trade policy) to the machinery, the following suggestions present themselves:

Defects in Federal Reserve System. It is evident that the Federal Reserve System failed to control the inflation, and has as yet failed to control the deflation. Ultimately the New York discount rate was raised to 6% in August 1929, but the country paid dearly for the months of delay and indecision in the superinflation of that year. Similarly the System has been unable to evolve and operate and persist in an effective policy to counteract the deflation in the last three years. Its anti-deflationary policy has found only hesitant, tardy and intermittent expression in action. In matters of monetary management, in the control of inflation and deflation, a stitch in time saves nine. Twelve scattered banks, each with its governor and its chairman and its board of directors, loosely ruled by a board of eight in Washington, composed of men of diverse opinions, do not provide the country with an organization well adapted to act promptly and decisively. Some remedy must be found for this.

Branch Banking. The arguments for and against branch banking have been exhaustive, and it is not necessary or appropriate in this memorandum to review them. The banking business is like the insurance business in that it depends for its soundness on averaging risks. The smaller the business and the more localized the risks, the

less chance there is to average them. One reason why the depression has had graver consequences for us in America than for some other countries less fortunately situated is this, that we have subdivided our banking resources into relatively small localized units. There are advantages of local independence and autonomy in the unit banking system, but we are paying heavily the price of them.

Capital Issues. The malpractices of the inflation era have emphasized the demand for reform in regard to capital issues. However, it is essential in guarding against the recurrence of these evils not to take steps which might retard or prevent recovery from the depression. The history of all depressions indicates that recovery began when prime capital issues became salable again, and not before. The wheels do not begin to turn as long as borrowers are dependent on short commercial loans. Only when investment capital is again obtainable do business and industry enter upon new undertakings or expand the old. So long as they are dependent on commercial credits, business and industry seek by economies on capital and current account to reduce their expenditures, and if possible their bank loans. Only when the bond market develops will they start going.

The provision of bank credit, beneficently facilitated by the Federal Reserve Act, to meet seasonal and transitional requirements of business, industry and agriculture, is most necessary. But at least as important and helpful is the mechanism for providing that permanent capital which is the very foundation of our economic life.

Without the citizen's thrift and savings on the one hand, and the mechanism for the creation and distri-

bution to thrifty investors throughout the land of capital issues, the country would be plunged back into the middle ages. Our banks would be frozen solid, for the loans they have made to meet seasonal, occasional and transitional requirements of business enterprise, could not be liquidated if the mechanism for providing permanent capital were wrecked. It is necessary and desirable to preserve the complex and on the whole useful mechanism for the creation and distribution of investment securities and the permanent investment of thrifty citizens in them. It is not wise to destroy the investment securities market, the bankers, brokers, dealers and holders of such securities, because some people speculated in them.

Handling Securities by Banks. Opinion has advanced to the point where it seems to be thought that the banks and trust companies should discard their securities affiliates with greater or less expedition, and withdraw from the issue and distribution of capital issues. It seems, however, that such banks should still be permitted within the limits of the present law to buy, sell, and own bonds, and to underwrite them and lend upon them. Otherwise there is serious danger of impairing the machinery for the necessary capital issues to bring about recovery from the depression.

By Private Bankers. The great commercial banks, directly or through their affiliates, have in the past twenty years or thereabouts to a large extent occupied the field of capital issues, purchased and absorbed some private issuing and distributing houses, and by their competition driven others out of business or restricted their opportunity for profit and therefore their resources. The corol-

lary to the suggestion that the commercial banks should dispense with their affiliates and withdraw from the capital issues business seems to be that private bankers, issuing houses and dealers should be encouraged to resume their former place in the national economy to the end that the old machinery for handling capital issues may be recreated, and so recovery from the depression facilitated.

Private Bankers' Deposits. To withdraw the right of issuing houses to receive deposits from their private clientele would impair their usefulness. Any concern devoting itself exclusively to capital issues faces peculiar difficulties, for it must have a considerable capital and yet it is without a "bread and butter" business such as ordinary deposit banking and acceptance business provides. Private bankers do not and should not use their deposits in their capital issues business. They should keep their deposits invested in government securities, call loans, time loans, etc. But to require investment bankers to give up their deposit business would reduce their day to day earning power and reduce such bankers to the level of mere bond brokers, and therefore make them to some degree dependent on the commercial banks. It is important to preserve the private bankers as independent issuing houses, wholly separate from and not mere dependencies of the commercial banks, as they would become if they were required to give up their banking business.

Investment bankers should therefore continue to be permitted to receive deposits within the limitations imposed by the New York State law. That law prevents them from soliciting deposits from the general public,

from advertising themselves as bankers, and from paying interest on deposits of less than \$7,500. Thus they deal only with a limited clientele and not with the small depositor who is especially and properly the ward of the government.

III. CORPORATIONS AND PARTNERSHIPS

The growth of corporations has been very rapid in the last hundred years. It would have been impossible to build railroads and telegraphs and bridges, to build our great commercial banks, our great industrial organizations, unless the capital of the general public could be enlisted for their development. To enlist the capital of the general public in these enterprises it was necessary to develop the corporate form of organization, and necessary that the corporation should receive certain priceless gifts from the State: the very right to exist as a body corporate; the right of perpetual succession; the right to solicit subscriptions to capital stock from the general public; and total or partial exemption from personal liability; the right to delegate the management to salaried men not the owners.

Creation of Corporations. Corporations were a strange new kind of beings, the very creatures of the State. They were artificial contrivances, necessary and desirable to meet the needs growing out of the industrial revolution, but whose powers and the manner and extent to which they might be exercised were in the nature of the case determined by the State. The State which creates them has not only the right but the duty to regulate and control them to the best of its ability.

Aids to Incorporated Banks. Incorporated banks, chartered by the State, received not only the rights and privileges conferred upon all corporations, but certain very special ones such as the right to appeal to the public, for capital and deposits, as institutions supervised by the National or State Government, and the right to call themselves "National" or "State" banks.

The Federal Reserve System lends money to incorporated banks in time of need, and may create currency to that end. The National Government thus added to the charter powers conferred upon incorporated banks, the most extraordinary special privilege conferred upon any group, *vis.*, the right to have currency and credit created for their use.

Then a year or more ago, the Government, recognizing its responsibility to the depositors in the institutions which it had created, regulated and aided, wisely determined to grant further aid to incorporated banks, and created the Reconstruction Finance Corporation for that purpose, among others.

Nevertheless seven thousand incorporated banks closed their doors in the decade following 1920, and in the last two and a half years thousands more have closed their doors.

Private Initiative. Notwithstanding the great benefits of incorporation, there is something else that is priceless in the life of the people. That is the individual enterprise of the merchant, manufacturer, business man and banker, who alone, or in partnership with others, risks his own capital, his own good name, his own effort, and all that he has in the world in his business. They ask nothing of

the State except the right to continue to live, the right to life, liberty and the pursuit of happiness, the right to attend to their own affairs for their own good and that of their fellow men.

The growth of corporate enterprise has been drying up individual independence and initiative, drying up the life of the big town and the small town, and the hamlet. We are becoming a nation of hired men, hired by great aggregations of capital, theoretically controlled by absentee stockholders, who are however so numerous and whose individual interest is generally so small that their control is inarticulate and difficult to express. This corporate growth in large measure was inevitable and no doubt desirable. To attempt to reverse it would be like turning back the hands of the clock.

But do we wish to go further and accelerate it? Not merely to grant charters and franchises and immunities and subsidies to corporations, but by law and regulation to stamp out private enterprise and private initiative, the activities of private business men and private bankers, who are ready and willing still, in spite of the subsidized competition of corporate enterprise, to stake their own capital instead of that of the public, give their own time and attention to the management of their own businesses?

Private bankers seek and receive no charter from the State. They do not solicit capital from the public, but venture their own capital. In New York they do not solicit nor receive deposits from the general public. They may not hold themselves out as bankers to the public. They do a private banking business with their private clients, who number perhaps a few hundreds as compared

with the tens and hundreds of thousands of depositors of the great incorporated banks.

The Creditable Record of Private Bankers. The banking business of private bankers, the receiving of deposits, the making of loans, buying and selling of exchange, making of acceptances, has on the whole been conservatively conducted, and in spite of casualties private bankers have given a good account of themselves here and abroad, over a period beginning a couple of hundred of years before corporate banking began. In London, Paris, Vienna, Berlin, Hamburg, Amsterdam and New York, private bankers have for generations made important contributions to the economic development of the world, to the development of business enterprise and sound finance. Their record is not less creditable than that of incorporated banks, in spite of all the benefits and immunities and government aid conferred upon the latter.

Merchants of Securities. Issuing bankers are really merchants of securities. Some of them are wholesale merchants like ourselves who have no salesmen, and others are retail merchants. Private bankers are not investment trusts. It is not their function to lock up their money, much less the money of their depositors, in investment securities. Their good will and ability to do business depend upon their experience in judging what are good, sound issues, and what are proper prices. Their money, their reputation and their good will are at stake in every operation. If they make errors of judgment, their ability to do future business is impaired. When they handle an issue for any Government or corporation, they weigh the pros and cons, the merits of the issue, and they

follow it up afterward in the effort to protect investors. When they go on boards of directors, they do it not to obtain advantages for themselves, but with a sense of their responsibility toward investors in securities of companies which they have sponsored.

IV. CONCLUSION

All our effort in the war period was to help win the war. All our effort in the first post-war decade was to rebuild the world upon the ruins left by the war.

After the war the most heroic efforts were made by bankers and investors, financiers and business men, economists and experts to erect a tolerable world upon the ruins. The gold standard was reconstructed throughout the world. New debts, new loans and new credits were granted in the effort to restore and support the gold standard and to restore and revivify trade.

However, governments in one country or another, or in all countries, failed to do their part. The inter-governmental debts resulting from the war were only tardily, and then not sufficiently, reduced. Tariffs and other trade barriers were increased. Taxes and loans were raised to meet the uneconomic expenditures of governments. Armaments were not reduced. The comprehensive rearrangement of the map of the world by the treaties of peace involved many political and economic maladjustments, and little was done to solve them. Russia was ostracized and was carrying on an economic and political war against our civilization. China continued her civil war, or wars, and later Japan and China became involved in military operations.

Hindsight. Looking back it is easy to see the errors which were made. It is easy to see that our super-prosperity from 1914 to 1929 grew out of the war itself, and out of the maladjustments which the war left behind it. Yet while we were living through the period it seemed that with effort, forethought and courage we were going to be able to build a better world; that our Federal Reserve System created in 1914 had put an end to the banking panics which had periodically arrested every previous era of prosperity in modern history; that, possessed of a great continent with all the climates and all the natural resources, inhabited by an adventurous and hardy and industrious people; with the extraordinary development of communications, of telephone and telegraph and radio, of motor cars and of roads, electrical power and all the manifold extensions of human activity; we had indeed entered upon a new phase in the life of the American people.

Even when the panic came in 1929, no one had any conception of the length and depth of the depression which it heralded. Some took a gloomier view than others, but we know none who had imagination and vision and knowledge sufficient to foresee then in October and November 1929 the gravity and extent of the catastrophe impending. The extent of the inflation and the extent of the deflation were both beyond our reckoning.

Efforts to Meet the Difficulties. At the outset of the panic we spent our strength and our resources in the effort to stem the disaster. We formed a group of leading banks to maintain an orderly stock market, and prevented what

doubtless otherwise would have been a general moratorium in 1929. From that day to this our time and strength and money have been devoted to the effort to retard or arrest the disaster, to assist this or that firm or company in trouble, with what losses to ourselves is evident.

Again in 1932 we helped to form the American Securities Investing Corporation which was, we think, a constructive factor in the bond market.

We have made mistakes. Who has not? Our boast is that our effort during the whole post-war decade was constructively conceived towards the rehabilitation of America and the world after the war; that our record in the past three and one-half years, beginning with the panic, has been one of strenuous effort to mitigate the disaster; that we have through thick and thin run a sound bank on sound banking principles and protected our depositors; and that the service of the securities we issued in the whole post-war period, aggregating some billions of dollars, in spite of lamentable depreciation in market quotations in consequence of the depression, has with few exceptions been maintained under conditions of world-wide disaster.

Yes, we have made mistakes; but were we more mistaken than are those prophets of evil, those defeatists, who accept the present level of employment, of prices, of commodities and securities, as final or look for even a lower level ahead? Were we after all wrong in our judgment that it would be possible to build a new and better world on the ruins left by the war? We think not. We do not think our hopes and plans were foolish or thoughtless or ill considered. We hope that the constructive

plans of the Administration will lead us all out of the deflation, and, by wise monetary management, by lowering trade barriers and by reducing armaments, will justify our hopes rather than the fears of the defeatists.

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**Representation on the present Exchange Policy of the
Government of India submitted by the Council of
the Western India National Liberal Association,
Bombay, to His Excellency the
Viceroy, His Majesty's Secretary of
State for India and the Finance
Member to the Govern-
ment of India.**

The Council of the Western India National Liberal Association have read with alarm the reply given by the Rt. Hon. the Secretary of State for India in the House of Commons on February 12 that the Government of India with the approval of His Majesty's Government, have no intention of changing the 18d. ratio, which had become a settled fact with the passing of the Currency Act of 1927, and that Government will maintain this ratio with all the resources at their command. As to what would happen when the constitutional changes outlined in the Federal Structure Sub-Committee's Report are given effect to, he referred to paras 18 and 20 of that report.

Further the Hon. the Finance Member in his budget speech on February 28, said: "There is no question now of choosing between 1s. 6d. and 1s. 4d. It is a choice between a stable currency and complete instability."

The Council are of opinion that the importance of this question, both from the standpoint of the furtherance of India's economic well-being and in relation to the reaction on the attitude of the commercial community on the constitutional issues now on the anvil, does not appear to have been fully realised by Government. Government cannot be unaware of the very stout and consistent opposition of the Indian commercial opinion to the adoption of

this ratio from the very time Government gave an indication of their intentions in this regard. Both the Minute of dissent of Sir Purshottamdas Thakurdas appended to the report of the Hilton-Young Commission and the microscopic margin of three votes by which the Currency Bill of 1927 was carried in the Legislative Assembly with the assistance of official and nominated members' votes, as well as the ceaseless agitation in the press and on the platform, are convincing proof of the country's refusal to accept this 18d. ratio as a settled fact.

The Council would invite your urgent attention to some of the consequences of Government's persistence in a policy which is no less opposed to public sentiment than to actual economic facts. The crucial test of the success of this policy is the extent to which Government have been able to obtain their Home Charges by purchases in the open market. It is only a truism to state that the balance available for Government is what is left in the market after imports of commodities and services are paid for. The following figures clearly confirm the failure of Government to fulfil this test :

Year.	Home Charges.	Remitted by Purchases in the Market.	REMARKS.
1927/28	£.35.5 mils	£. 28.3 mils	£3.8 mils transferred from Paper Currency Reserve; sterling bills of £5 mils and a loan of £7½ mils.
1928/29	£. 36 "	£. 30.8 "	£6 mils. India Bills; £10 mil. loan.
1929/30	£. 35½ "	£. 19 "	£9½ mils transferred from Paper Currency Reserve and 6 mils. borrowed on India Bills.
1930/31	£. 31.8 "	£. 5.3 "	New borrowings of £25 mils and sale of Reverse Bills of £5.5 mils.

The inability of Government to obtain the necessary sterling funds for meeting their Home Charges on the basis of the 18d. ratio has been admitted by Sir George Schuster in his budget speeches of last year and this year also.

In order, therefore, to make good the short-fall on remittances, Government have adopted measures which in the words of the Finance Member have "inevitably not only had an adverse effect on Government finances but have also reacted unfavourably on private traders." (See para 108 Budget speech of this year.) To take only one instance, Government have borrowed no less than £37 million pounds in London during the last twelve months at fairly high rates of interest. These borrowings have not only added to the public debt of India, but have been based on the unsound expedient of financing current expenditure out of borrowed funds. The Council must emphasise the danger of piling up India's foreign obligations, particularly when they are incurred for unproductive and recurring expenditure, and effectually increase the annual drain from India in the shape of interest and sinking funds. Frequent resort to the capital market of London, as evidenced by Government's raising no less than four loans in the last twelve months, cannot also but affect India's credit and by raising the cost of borrowing inevitably cause depreciation in the prices of existing securities. Whilst the Council are prepared to concede that to a certain extent political uncertainties may have influenced adversely the rate of recent borrowings in London, they are convinced that the necessity and frequency of these borrowings have been entirely the result of Government's failure to obtain their Home Charges on the basis of the statutory ratio. The Council cannot subscribe to the optimistic view taken by the Finance Member in regard to the possibility of the trade depression lifting in the near future and are, therefore, of opinion that the chances of remitting through the market the Home Charges for the next year, which are estimated at £ 33.3 millions, are very slender and would, therefore, necessitate still further borrowings in London. In view of the maturing obligations practically every year in London upto 1938, the Council fear that conversion of these loans will impose upon the country an unjustified burden of higher interest

charges for a number of years to come besides severely curtailing India's capacity to borrow in London for productive objects.

In addition to direct borrowings in London, Government have been contracting currency through sales of silver and sterling securities as well as by cancellation of Treasury Bills held in the Paper Currency Reserve. Making full allowance for the return of rupees from circulation viz., Rs. 64 crores between April 1926 and December 1930, there was a net reduction of 18 to 20 per cent in the amount of currency in circulation. Besides this, money is being continuously withdrawn from the market by ceaseless issues of Treasury Bills, Rs. 50 crores of which are outstanding now. The effect of such large withdrawals of currency, coupled with the entirely unjustified rates at which Treasury Bills are sold, has been the maintenance of undue monetary stringency in India and prevalence of high rates of interest—conditions which are absolutely divorced from the circumstances and requirements of trade and industry in the country. Remembering that in pursuance of their policy Government have not allowed the normal expansion of currency—which according to the pre-war average was Rs. 20 crores a year—but have deliberately withdrawn over Rs. 90 crores between April 1926 and December 1930, the Council cannot accept the Finance Member's plea that currency has not been sufficiently contracted to correspond with the fall in prices. The Council have no doubt that the fall in prices in India has been accentuated by Government's policy of contracting currency and thus forcing rigorous curtailment of credit, particularly at a time when falling prices increase the difficulty of maintaining sufficient margins on stocks, which had to be liquidated by forced sales on an unwilling market. Soon after the collapse of the New York Stock Exchange boom of September 1929, every important money centre in the world has experienced easy money and cheap credit. Mr. Reginald McKenna, Chairman of the Midland Bank said in his speech at the annual Bank's meeting last month: "If monetary policy can do little in the present circumstances to stimulate recovery by positive action it can at any rate preserve conditions favourable to recovery by keeping money plentiful and cheap." Since May 1930, the Bank of England rate stands at 3 per cent.

whilst both the Federal Reserve Bank of New York and the Bank of France have lowered their rates recently to two per cent. If the Finance Member's contention be correct that currency has not been sufficiently contracted, the Council fail to see how it can be reconciled with the necessity of maintaining a seven per cent. bank rate in India. The Council have, therefore, no hesitation in confirming their opinion that instead of assisting recovery of trade and industry with plentiful money and cheap credit, Government have inflicted a serious burden on them when they are least able to bear it and have consequently aggravated the sufferings of the people engaged in them by using currency as a lever for bolstering up a ratio which has been found to be breaking down in practice.

It is a matter of common experience that the prices of agricultural products have dropped more than in the case of other commodities and India as an exporter of these products has been hit not only by the world depression in prices but also by the special fall in the values of her products as a result of the inflated value of the rupee. The prices of such products being determined by factors over which the Indian producer has no control, the conversion of these prices in terms of the 18d. rupee means the reduction of values in most cases to below cost of production. At a time, therefore, like the present when the poor Indian agriculturist badly needs relief from the burden of rents, land revenue and irrigation charges which remain unaffected in spite of the fall in prices, the artificially inflated value of the rupee has been making it more difficult for him to keep the wolf from the door.

The Council are also convinced that one important incentive to the export of capital from India is provided by the continued instability which has been felt in relation to the statutory ratio. Needless to say, however, strong and unequivocal the language used by the Finance Member or the Secretary of State for India about the intentions of Government in regard to the revision of this ratio, it cannot have more than a temporary effect on the market so long as the basic factors making for instability remain unaltered and so long as people are daily impressed by the exceptional measures that have to be taken in support of Government's position.

In this connection, the Council would most earnestly implore Government not to treat lightly the danger of undermining public confidence in the liquidity of currency notes by heedlessly depleting the Paper Currency Reserve of its gold holdings, particularly at a time when the silver holdings have been widely known to have suffered unprecedented depreciation. It may perhaps be of some interest to note that assuming the proposals outlined in Sir Basil Blackett's Reserve Bank Bill had been given effect to and the Paper Currency Reserve and Gold Standard Reserve had been amalgamated the gold holdings in the combined reserve to-day would have fallen short of the necessary percentage required in that bill.

The Council cannot but view with serious apprehension the construction put by the Secretary of State upon the safeguards mentioned in para 18 of the Federal Structure Sub-Committee Report. Since these safeguards were tentatively accepted at the R.T.C., Government have frittered away India's gold resources by several crores in their attempt to carry out their statutory obligation. The Council submit that the continued depletion of our gold resources will not only render impossible the establishment of a Reserve Bank immediately but also postpone indefinitely the time when control over currency and exchange can be transferred to a responsible Indian Minister. There is a widespread and growing feeling in the country that constitutional reforms, however broad-based and generous, can be of little use in practice to the people if they are not enabled thereby to undo the mischief that has been perpetrated by the currency and exchange policy of Government.

The Council urge that the policy of maintaining the statutory ratio by using all means in the power of Government may be carried too far with disastrous results. In 1920 the statutory ratio was 2s. and in order to maintain it the Finance Member lost to India Rs. 55 crores by issuing Reverse Council Bills and after a hopeless struggle of ten months had to abandon the ratio. The Council point out that it would be highly detrimental to the financial interests of India to repeat the experiment of 1920 and try to maintain the present ratio which cannot be maintained if at all except by frittering away the financial resources of the country.

The Council, therefore, most earnestly appeal to Government to refer this question for fresh examination to a small committee of experts with a request to submit their report without undue delay and that Government should undertake to give effect to their recommendations forthwith.

Bombay, 13th March, 1931.

A STATEMENT TO THE PRESS

BY

MR. M. JAMAL MAHOMED SAHIB, M.L.A.,

**(President, Federation of Indian Chambers of Commerce and
Industry and of the Southern India Chamber of Commerce).**

ON THE

EXCHANGE & CURRENCY POLICY OF THE GOVERNMENT.

Madras, 9th October 1931.

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Exchange and Currency Policy of the Government of India and the Gold Reserves.

It is rather too late in the day to discuss the merits and demerits of the currency policy of the Government, which had hitherto been followed by them. Now everybody in the country, not only the industrialists, the trader, the agriculturist and the labourer but even the Government of India themselves seem to be realising it that the 18*d.* gold ratio had played untold havoc in the economic life of the country. It had been quite obvious for some time past that the country was dead against this policy and unanimously desired to get rid of it. Consequently, the only grounds on which this 18*d.* ratio was maintained recently were not "in the interests of the country" or "at the desire of the people" but on the grounds of "statutory obligation, stability and confidence."

Now when England went off gold the Government of India decided to suspend the sale of gold or sterling against rupees. That is the only thing they could do, more so because of the dangerous extent to which the depletion of the gold assets in the Reserves had been carried on to maintain the 18*d.* gold ratio. The Secretary of State immediately after decided to overthrow the policy underlying His Excellency the Viceroy's First Ordinance (Ordinance 6) suspending the sale of gold and sterling against rupees and decided to link the rupee to sterling. That this latter decision of the Right Hon'ble the Secretary of State for India is against the wishes of the

people and the interests of the country has been made quite plain by the country's protests by the public, by the press and by the Assembly. So now let us see whether at least the policy of Sir Samuel Hoare which he had thought fit to impose, as it were, against the good judgment of the Government of India has at least the excuses which were being adduced in recent times in defence of the now defunct 18*d.* gold ratio. I mean statutory obligation, stability and confidence.

Regarding statutory obligation the 18*d.* gold ratio was at least based on the recommendations of the Hilton-Young Commission however mistaken from the point of view of Indian interests it might have been, thanks to the unnatural composition of its personal, and by the Act of 1927. There is no such thing to justify the present action of the Secretary of State and his new policy.

As regards stability where is stability when rupee is linked to the fluctuating sterling?

With regard to confidence, there could be no confidence either when the value of the rupee in terms of gold keeps fluctuating with the oscillating sterling. Even if by confidence it was meant the inspiring of confidence in our currencies amongst the people inside and outside the country, it goes without saying that it is not inspiring confidence to go on dissipating the gold resources kept for the backing of our currencies but it is rather leading to "no confidence."

It will thus be seen that the only justification that could possibly be for the present action of the Secretary of State over the heads of the people of the country, the Assembly and the Government of India is that he has

got that constitutional power. It has made us realise, in a very remarkable manner, how pernicious and dangerous is the system under which we are living and it is very opportune that this realisation should have come so pointedly at a time when the constitution of the country is being shaped at the Round Table Conference.

Some apologists of the present 18d. sterling ratio, having unfortunately confounded the issues are trying to bring in various specious arguments in its favour which on a closer examination will be found to be erroneous and misleading to say the least of it.

(1) They say that the opponents of the 18d. gold ratio wanted 16d. gold exchange and since now 18d. sterling is better than 16d. gold they should not demur to it. It is true that the country wanted 16d. gold ratio before but then it was the natural one and it would not have then required any artificial propping up and sacrifices of the gold resources. But things are now quite changed. Owing to world depression and the heavy fall in the commodity prices and also the havoc caused by the 18d. gold ratio on our Industries, Commerce and Agriculture, our export trade has very seriously suffered. In the present circumstances 16d. gold has also become an unnatural ratio and consequently will also require heavy sacrifices to maintain it now though not to the same extent as under 18d. gold. It is quite possible that after a little interval of say one to two years to allow for recovery in our Commerce, Industry and Agriculture under the wholesome influence of a lower ratio, our export trade will recover enough to support a ratio of 15 to 16 pence gold without much sacrifices. But not now and so what was good a few years ago cannot be good at present and naturally therefore acceptable under the present circumstances.

Then there are some who say that just at present there is an improvement in the commodity prices in the country. Why not be content with it? In the first place nobody would dare to maintain that the improvement whatever it is, is equal to fill up the gaps of the distressed and shattered state of our economic structure. Apart from that there is a very important and vital point in this connection that should not be lost sight of. It is this. Britain had gone off gold and so sterling has depreciated in terms of gold and as under the present dispensation our rupee is linked to sterling, our rupee too has depreciated to the same extent in terms of gold. And as world commodity prices are based on gold values there is this slight improvement in the internal prices of commodities in this country as it is in England. But there is another side to it. But as the "off gold standard" is giving an advantage to British trade over that of gold standard countries it is most likely to lead to gold standard countries going off gold as well or England being brought back to gold standard again. In either case the present slight advantage will disappear as it is contingent on circumstances outside our country over which we have no control or influence whatever. It will thus be seen that the advantage accruing now from England having gone off gold is unreliable and temporary. Whereas the advantages accruing from a break of rupee from the present unnatural and artificial 18d. sterling ratio would lead to a more natural and reliable ratio adjusted by the exigencies of our foreign trade and at which level it can be stabilised if it were the wish of the country then. The advantages resulting from the latter course will certainly be more reliable and lasting.

But even supposing that the advantages accruing from the break of the sterling from gold is going to last

for some time where is the harm in having both the advantages to which the country is fully entitled to and from which it had been kept off only by the artificial and arbitrary actions of the Government. Further if Britain could go off its time-honoured gold standard which was there at the express desire of the people so much so that the three principal parties of Great Britain went even to the length of creating an emergent National Government consenting to keep aside for the time being their different and in most cases opposing policies and principles in order to concentrate on the maintenance of the gold standard of the pound sterling, one fails to understand why we should not be allowed to drop the unwarranted unnatural ratio which the country did not and does not want and against which it had been crying aloud all along as it was upsetting and damaging our economic structure to the serious detriment of the people of the country in all walks of life. Much less could any see any justification for the present attempt of the Secretary of State to impose his autocratic will over the heads of this country, its Legislature and apparently even disregarding the representations and advice tendered by the Government of India. For here there is not even the spurious sanction of the recommendation of the majority of packed up Currency Commissions nor even the sanction of an Act based on the wrongly interpreted vote of the Assembly. Search however you may for any justification for this arbitrary and despotic action of Sir Samuel Hoare against the unmistakably unanimous voice of the people of the country and opposed to all its vital interests, you find only one justification and that is the power given to the Secretary of State to do as he pleases according to the present constitution. There are many who are of opinion that this is going to

be the last straw on the camel's back and the death-knell of that intolerable constitution, I think they are quite right there but what I cannot really understand is why British statesman should be so blind as not to realise this for themselves. It looks as though that this is going to be one of those political blunders perhaps the most serious of its kind which has been so often noticeable in British statesmanship, particularly since the Great War. I fervently and earnestly hope and pray that the powers that be would realise the full import of it before it is too late as it had been our unhappy experience in recent times in many an instance like the ratio policies of 1920 and 1927, the Simon Commission, etc., and rectify the wrong before long even if it be only for the continuance and maintenance of the inter-imperial connection between India and Great Britain. I really shudder to contemplate the full consequences of this false step if allowed to have its own effect on the people of this country.

Budgetary Difficulties.

I find in some interested quarters an attempt to defend the artificial linking of the rupee to sterling on this ground but their premises carry their own refutations as will be clear to all open minded people on closer examination of their arguments.

On the face of it, it is true we would require a few crores of rupees more to cover the sterling remittances of the Government of India. But have they also considered what are on the other side of the scale? The appalling loss to the wealth of the country in hundreds of crores to say the least of it by way of depreciated internal commodity prices of its agricultural and industrial products, particularly the

former and the natural and consequent fall in the revenues of the Government in tens of crores as it has only been too abundantly and unmistakably proved now. How could the revenues of any country be unaffected, if the sources they are derived from—agriculture, trade and industry—are depressed and very nearly paralysed. So it should be patent to all that it is a penny wise and found foolish policy they are attempting to defend.

Home Remittances.

They also refer to the difficulties in remitting funds to the Secretary of State to meet the Home charges, etc. Now it is a well known fact that comparatively larger exports bring about a firmer exchange and smaller exports a weaker one—and it is an equally well-known fact that an appreciated exchange curtails our exports just as a depreciated one stimulates it. So it is only logical that there should be difficulties in sterling remittances whenever there is an unnaturally appreciated exchange affecting our exports. The history of the past few years prove this abundantly enough.

External Trade of India.

Only a portion of our external trade is, with Great Britain and it is true that sterling is used as the medium of reimbursement for a good portion of our foreign trade with other countries. But I cannot see any force in their argument as whether our currency is linked to sterling or not, the commodity prices in the world markets will always be based on gold values and not on sterling or for the matter of that on the currency of any particular country much less on a weak and fluctuating currency as the pound sterling happens to be now. The events of the past few days since England went off gold have fully proved this. So it makes no difference even to that part

of our external trade carried on in sterling except that as long as our rupee is artificially linked to 18*d.* sterling, it will continue to keep down the internal rupee prices of our commodities.

Additional and Unjustifiable Burden on Tax Payers and Debtors.

In this connection there are two serious aspects of the question that should not be lost sight of.

1. The unjustifiable additional exaction so to say, from the tax payers who have to mete out more of their produce to meet the same amount of taxes in rupees.

2. The additional burden on debtors, mostly agricultural, who are burdened with long running debts contracted at a time when rupee was worth less in terms of commodities in the shape of recurring interest charges on and repayment of old debts.

Flight of Capital.

Curiously enough the flight of capital from the country is also brought in as an argument in favour of the maintenance of the present unnatural higher exchange. But it should be plain to anyone who cares to go into this question seriously that flight of capital is always encouraged and stimulated by a higher ratio just as a lower ratio would put a stop to it and induce the inflow of capital. Let the figures for flights of capitals in 1920 and from the end of 1924 (when 18*d.* became the *de facto* ratio, thanks to the manipulating operations of the Government) and onwards be compared with similar figures of the periods when 16*d.* was our established and natural ratio. It is sure to open the eyes of even those who want to defend it on this ground. It is a very simple

question. As long as remitters get more in sterling than is warranted by the trade circumstances they will certainly be induced to remit abroad and it is equally plain that as soon as the exchange is low enough to enable the bringers of capital into the country to get more in rupees on this side, they will be encouraged to do so. If more proof is needed the present artificial linking of rupee to sterling at 18*d.* has only to be dropped and there will be an immediate and tremendous inflow of capital into the country.

Confidence.

This is also one of the arguments trotted out. Let me point out that when ratio was altered to 2*s.* in 1920 and then to 18*d.* in 1927 "the shaking of confidence" was not thought of. However that may be let us see whether the present policy is one that would inspire confidence or the one tending towards another direction. The confidence in our ultimate solvency and in the inherent strength of our currency are more important than any other confidence. Most of all is the confidence of the masses in our silver and paper currencies. But what has the Government's exchange and currency policy been leading to:—

- (a) Heavy Deficit Budgets.
- (b) Constant and heavy borrowings at progressively high rates.
- (c) Depletions of the gold assets kept in the reserves for the backing of our currency.
- (d) Tremendous and rapid growth in our National Debts and Debt services.
- (e) Grinding and growing taxation burdens.

Is this the method of inspiring confidence? Worst of all, the position of our currency reserves is unfortunately so bad that it may lead to inconvertibility at any time—a thing to be avoided at all costs.

Where is the inspiring of confidence in this policy? It is rather the other way round. As everybody knows the credit of any country will depend on its debts and its budgetary position. Similarly the strength or weakness of the exchange will depend on its external trade position. Likewise the confidence in the currency of a country will depend on the backing it has. Recent events even in such a rich creditor country as England has fully proved this. How could a poor debtor country like India expect to escape the natural and logical effects of its wrong policy?

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REPORT OF COMMITTEE ON STABILIZATION OF THE MONEY STANDARD

E. H. ZIMMERMAN, *Chairman.*

To the President and Members of the Missouri Bankers Association:

In presenting the report of the Committee on Stabilization of the Money Standard at the last convention of the Missouri Bankers Association, your Committee stated that the subject was one which was occupying the minds of leading economists of the world; that at that time there had been no agreement among them concerning it, and, therefore, no specific recommendations of the committee concerning it could be expected. That statement can be well applied to the present situation. Your committee, therefore, begs leave to present the following report; which, like its report at the last convention of this organization, is general in scope:

Current interest and activity with respect to monetary stabilization are the logical sequence of the wild inflationary and deflationary excesses of the war and post-war periods.

Not only did practically all countries leave the gold standard, during the war, but monetary instability created great economic and social havoc in all countries, belligerent or neutral.

Between 1913 and 1920, the general price level in the United States more than doubled. So rapid was this increase that in one year, 1919, there were over forty-five hundred strikes with over four million men affected. In many countries the price increases were much greater and the social disorder correspondingly increased.

Beginning in May, 1920, prices fell in the United States over thirty per cent within eighteen months. At the end of this period, approximately five million men were unemployed, and the loss to the farming community, according to Senator Borah, was over twenty billion dollars.

At Genoa, in 1922, the representatives of over thirty nations met to consider what might be done to restore a more nearly normal economic condition throughout the world. They resolved that the primary necessity was the stabilization of the purchasing power of the currencies of the world, this to be followed by a convention to consider what might be done to stabilize the purchasing power of gold itself.

It should be noted that there are two aspects of the stabilization problem; one, the stabilization of the legal value of the monetary

unit relative to the metallic base; and, the other, the stabilization of the monetary unit with respect to its purchasing power in terms of commodities and things in general.

The year 1928 witnessed the final return to a stabilized metallic base of the last of the principal nations (France) which had abandoned the gold standard, during the period of war inflation.

This opened the way to consideration of ways and means for stabilization of the purchasing power of gold, as suggested by the Genoa resolutions, a subject which had long been under public discussion in economic circles and, more privately, among the central banks of the world.

This aspect of the problem also resolves itself into two parts: First, the creation of a soundly informed public opinion; and, second, the determination of the monetary principles involved and of administrative technique. The former of these two is regarded as constituting ninety per cent or better of the total difficulty; while the second is regarded, by the experts, as being of minor importance, since all but details are pretty well agreed upon among them.

That popular understanding is developing is evident from the increasing number of newspaper and magazine articles on the subject; the discussion of the subject in the periodicals of the principal banks and financial institutions; and the references to the subject in the legislatures of the world.

In the House of Representatives a bill introduced by Representative Strong of Kansas instructing the Federal Reserve Banks to utilizing the powers which have been granted to them by Congress to the end that the purchasing power of the dollar be stabilized led to the holding of hearings by the House Banking and Currency Committee during the course of which some of the world's most eminent economists and financiers testified. These hearings were widely reported and have been ordered reprinted—an unusual step which in itself evidences growing interest in the subject.

In the report of your committee last Spring reference is made to the evidence presented to the House Banking and Currency Committee from which it appeared that in proposing that the policies of the Federal Reserve System be directed to promote stability in the level of commodity prices in general, the advocates of the plan felt that in view of the relationship between the amount of money and credit in circulation and the general level of commodity prices the Federal Reserve Board and the Federal Reserve Banks in exercising control over the volume of money and credit in use can exercise considerable control over the general level of commodity prices.

The gold standard, contrary to the general impression, was far from being automatic even in pre-war days when it was, in effect, a managed standard. The Bank of England, for instance, purposely fixed its discount rates and conducted its purchases and sales of securities with the deliberate intention of affecting the general price level and the value of gold. That the gold standard has been consciously and purposely managed by our own Federal Reserve System, at least since 1922, is the consensus of the testimony of the experts who discussed this matter in the hearings on the Strong Bill above referred to.

That there is a necessity for a widespread understanding of the problem, of a stable, general price level not only in America but throughout the world, is generally conceded.

America has taken a foremost position in the scientific and popular discussion of the various aspects and angles of the stabilization program, under the leadership of a research and educational organization known as the "Stable Money Association" located in New York City.

This organization is composed of many of the leading economists and financiers of the United States and has affiliated with it many of the leaders in agricultural, labor, and commercial fields. The membership of the association is international in character, over fifteen nations being represented among the members. It does not advocate any laws or specific methods or plans; it is a research and educational organization confining itself to the field of monetary economics and aiming at the stabilization of the purchasing power of the monetary units of the world. The Stable Money Association proposes to continue, only on a more extended and intensive basis, its popular campaign of education on the evils resulting from fluctuating price levels, the preventability of such fluctuations, and the various methods proposed for stabilization, adhering to its established policy of not advocating any specific method or plan. It has on hand several important research projects, contemplates the publication of several books on the subject and the formation of a nation-wide system of branches and an international group of correspondents and advisers.

The present status of the whole subject can be summed up by a recent statement of Sir Drummond Fraser, an eminent British authority, as follows:

"The future task of the central banks which control the currency policy of various countries is emerging from the mists of monetary controversy and taking definite shape. Within a comparatively short term of years it appears likely that their task will be recognised

as the prevention of disturbing fluctuations in the general price level which are due, not to changing conditions in trade or in national habits, but to variations in the purchasing power of gold itself. A rise or fall in prices indeed is neither more nor less than an arbitrary alteration in the distribution of a nation's income, as between different classes of its people, and a begetter of strikes, lock-outs, and other troublesome outward symbols of the friction resulting from the necessity of adjusting wages and other costs to a new series of values. It is obviously desirable that ways and means be found of regulating the supply of money and credit so as to obviate disturbing price fluctuations."

The problem is one requiring much study and deep thought, and bankers and business men in general should avail themselves of the mass of information being disseminated before reaching any definite conclusions as to the wisdom of attempting any statutory mandates to bring about price stabilization.

Respectfully submitted,

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**HOW MONETARY
INSTABILITY
BURDENS
THE LAW**

by

**Gurney E. Newlin, President
American Bar Association**

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How Monetary Instability Burdens The Law

By Gurney E. Newlin, President, American Bar Association

Fifty years ago, the lawyer was supposed to be wholly ignorant of business and finance—litigation and oratory were his specialties. He was called upon to address gatherings on the 4th of July, Decoration Day, and other festive occasions. He was drafted to extol the virtues of his favorite candidate at election time. Business men and bankers assumed for themselves the responsibility of working out the problems of trade and finance.

At the present time, most of the oratory is furnished by professors, politicians and statesmen; while the lawyer, aided by the economist, the statistician and the accountant, builds the structures which are used to carry on the business of the country. In this effort, however, he has met with one baffling factor which has confused legislation, immeasurably increased litigation and decreased the efficacy of measures carefully planned for the general welfare. This factor is monetary instability.

Situations resulting from financial fluctuations and from changes in general price levels arise every day. They appear in every field of human endeavor. Adjustments of salaries or wages, of public utility rates, of valuations, of mortgages, of inventories, of prices, to the fluctuating buying power of the dollar demand more attention from lawyers than does any other one class of problem, even though many lawyers do not realize the source of their troubles and the general public is not always aware of the real situation.

For example, it took years of persistent effort on the part of the American Bar Association to induce Congress to increase the salaries of our Federal Judges to a living basis, an increase made necessary because the purchasing power of the dollar had fallen. It seems wholly inconsistent that the fluctuating price of pork and beans and other mundane things that men consume should enter into the rate of compensation of those who are devoting their lives to the highest duty which a citizen may perform—the administration of justice. Nevertheless, that is the lamentable fact. If our dollar is going to fluctuate in its buying power, it is only right that the compensation of our judges should rise as the cost of living rises. The same is true of our school teachers, professors, preachers and others engaged in serving the public, as well as in the case of those who are wage earners and salaried employes in other walks of life.

The unstable value, or purchasing power, of money as a serious

cause of litigation is always particularly evident in periods of rapid change in the general level of prices. Such a period occurred during the years 1918 and 1919, when the general level of prices rose with unusual rapidity, also in the years 1920 and 1921, when the price level dropped precipitously. This same cause of litigation likewise operates during those periods of gradual change in the price level, known to the economist as "trends," such as the period of falling prices which followed the Civil War and continued until 1896, and the latter era of rising prices which continued from 1896 until 1914. This latter period many will remember as one characterized by much discussion of the high cost of living, facetiously termed by the late James J. Hill "the cost of highliving."

The results of such fluctuations are immediately evident. During a time of falling prices, corporations and individuals are thrown into bankruptcy, and unemployment ensues because of the inevitable decrease in the number of producers employed. Strikes result, with litigation over labor injunctions, as well as disagreements between employers and employes which find their way into the courts. On the other hand, when prices rise, wage earners and salaried employes complain of the rising cost of living and demand increased pay, these demands often resulting in strikes, irrespective of any contracts which may be in existence providing for continuance of the existing rate. The Danbury Hatter case is an instance where a dispute of this sort cost long continued litigation. In 1919, there were over four thousand strikes in the United States, involving more than four and a half million men. During such periods of rising prices, railroad fares and street car franchise rates become inadequate to meet the cost of operation and it becomes necessary for the companies to appeal to the regulatory commissions, or, in case the rates are based on contracts, to appeal to the courts to have the stipulations amended or set aside. A notable instance of such litigation is the case now pending before the Supreme Court of the United States in connection with the effort to raise street car fares in New York City.

Tied up with this whole question of fares is the question of railroad valuation. The dispute as to whether railroads should be valued on the basis of original cost less depreciation, or on the basis of cost of reproduction, arises out of the fact that the value of the dollar usually changes between the time when the money is expended and when the valuation is fixed. The O'Fallon case, originating in St. Louis and designated by an Interstate Commerce Commissioner as "the greatest law-suit in history," is an instance where monetary fluctuations have precipitated long continued and bitter litigation in this connection.

It should be as much the concern of the legal practitioner to seek out and attempt to eradicate such causes of unnecessary legislation and litigation as it is the duty of the medical practitioner to seek out causes and sources of epidemics and other ills of the human body.

From 50% to 90% of the time of our legislatures, it has been estimated, is taken up with disputes which would not occur if the dollar had a stable purchasing power. Readjustments of salaries of public employes, school teachers, government experts, postmen, judges, are instances in point. If the dollar fluctuates again, either up or down, salaries will again have to be readjusted, involving further discussion. The fluctuations in business conditions created by fluctuations in the dollar, also make necessary constant readjustment of national income.

The lengthy agitation in Congress over farm relief aimed to remedy a situation due largely to the fact that the value of the farmer's land and produce declined, while the obligation existing in his mortgage and tax bills remained the same; all of the long and bitter debate over the gold standard, "greenbackism" and free silver, which arose out of the fact that the continuous decline in prices produced wide-spread suffering and social unrest; these are examples of the many similar problems which are produced by monetary instability, and the effort to solve which consumes so much of the attention and time of the public and of our legislators and courts.

Another important consequence of the present depreciated value of the dollar relative to its value a few years ago is the constantly increasing size of verdicts rendered by juries in personal injury cases against railroads and other public utilities. The alarming aspect of the situation, from the viewpoint of those charged with the responsibility of operating such properties, is that the public has not yet become sufficiently aware of the fact that the rates of passenger fares and the freight rates which these utilities are permitted to charge have not kept pace with the continuously rising operating costs resulting from larger verdicts, higher wages and the increased price of all commodities needed by the utilities in their operations.

Workmen's Compensation has the merit of settling liabilities arising out of injuries to employes on the basis of the value of the dollar at the time of the injury, and not years afterwards. Since 1909 there have been Workmen's Compensation Laws, either compulsory or voluntary, in substantially all of our states. These laws are economic rather than personal and are designed in the interests of the public good, as dis-

tinguished from the private interests of the individual. The loss sustained by the employer, as the result of an injury to an employe, represents the capital of the employe in the trade and arises out of the business in which he is employed. This loss, consequently, should be charged up as an expense of operation, just as fairly as the cost of broken machinery or any other expense which is ordinarily borne by the employer.

Under the Common Law, an injured man or, in the event of his death, his dependents, could recover only on proof of negligence, the amount of the damages being determined by a jury which frequently ignored the instructions or charges of the court, with the result that verdicts dealing with amounts in excess of the actual loss precipitated an unwarranted burden upon the employer. The employe, on the other hand, even though severely and permanently injured, might be unable to establish any liability on the part of the employer because of the rigorous rules of the Common Law. Furthermore, the injured employe frequently needs immediate assistance and should not be compelled to await the outcome of a lawsuit.

The fact, therefore, that the relief under the Workmen's Compensation plan is definite, certain and prompt and is given without regard to the question of negligence, makes the plans preferable to the Common Law System.

As regards the stabilization of exchange and credit, the greatest existing agency for making possible such stabilization is the Federal Reserve System. This system has been of infinite benefit to the business and financial interests of the United States in providing for centralization and mobilization of bank reserves, in making bank credits more elastic, and in improving the facilities for financing business generally.

Recently we have been passing through a period of stock speculation, the like of which was never before known. Trading to the extent of 6,000,000 shares of stock a day on the New York exchange is taken as a matter of course. Four thousand miles of tape are consumed in reporting one day's trading, and seats on that Exchange has risen in value in a year from \$170,000 to over \$600,000.

For more than two years conservative bankers and investors have been apprehensive about the continuous bull market. Many of them sold their stocks, only to buy them back again at a higher level. In August, 1921, the average value of industrial stocks was \$66.00. In February, 1926, it had reached \$184.00, and in 1928, before the December break, it had risen to \$326.00. One hundred shares of General Motors, pur-

chased in 1908 at \$10,000, rose to \$2,183,265. One hundred shares of Montgomery Ward & Company, purchased in 1921 for \$1,200, could have been sold in the early days of December for \$40,000. I cite these examples, not as particularly outstanding, but as typical.

The old rule that stocks should sell at ten times their earning power has been changed to one containing a much higher ratio and, although the rates for call money have sometimes seemed to be prohibitive, they did not deter speculation.

Notwithstanding all this, because of the stabilizing leadership of the Federal Reserve System, we have had no panics. Between September, 1927, and September, 1928, a half billion dollars of gold left this country, yet this outflow had no appreciable influence upon the stock market and credit at a price still seems to be available.

The leading countries of the world are on a gold basis and most of the others are striving to get on a gold basis. The volume of business is increasing in step with the ever-increasing population and, regardless of the requirements for speculation, the demand for gold, as a medium of exchange, is daily growing greater. That is generally true throughout the world and more especially in the United States. Thoughtful financiers are apprehensive lest the supply of gold will not equal the demand and, as a result, unless the value of gold be stabilized, the competition for it will inevitably cause a rise in its value and a consequent lowering of the commodity price level. This would be a result harmful to business, to labor, and to all elements of society. Therefore, the big problem to which all farsighted financiers and economists are giving their attention is the devising of some means whereby the value of gold may be stabilized or some other stable medium of exchange may be discovered. Obviously, if such a solution could be evolved, it would be the greatest financial and economic achievement the world has seen.

Efforts have been made to direct the activities and define the powers of the Federal Reserve System in the matter of stabilization of the purchasing power of the dollar. I refer particularly to the so-called "Strong Bill," on which many hearings have been had before the Committee on Banking and Currency of the House of Representatives. At these hearing some of the world's ablest financiers and economists expressed their views. While there is general agreement as to existing conditions, there is, as is usual in such cases, a wide divergence of opinion as to the remedy. Almost any doctor can see that a patient is ill, but frequently the wisest of medical men cannot agree on the remedy.

We live in a fast age. Our daily business is so urgent that most of us give little thought to the underlying principles of finance, and as long as plenty of money seems to be in circulation and there seems to be an apparently inexhaustible supply of credit, we seldom look beyond the present and contemplate the future. Too many of our citizens believe that all the ills of mankind are remediable only by new legislation; and so it is that the individual, the group and the community appeal to Congress and the Legislatures for relief. Our books are full of thousands of laws on every conceivable subject, many unnecessary and many foolish. Would it not be more efficacious for us to know exactly what we want and be sure that the laws proposed are adequate to meet the situation, before rushing to Congress or to the State Legislatures for more laws?

Today no well organized business, industry or bank, is without a research department. It is the most vital and non-emotional department of any successful organization. So it is with monetary science. The solution of the problem of stabilization requires the greatest financial ability and most persistent research. For that task, we would enlist not only the sympathetic interest but the active co-operation of every one who can qualify for the undertaking.

Fortunately, we are all free traders in the matter of exchange of ideas, whatever may be our thoughts about the tariff. Mr. Hoover, in his address at Rio de Janeiro, advocated the unlimited exchange of ideas between nations and urged every possible form of contact between the United States and South America that could facilitate the exchange of ideas. This, he said, was more important than the buying or selling of commodities. Obviously, if we are to maintain our position as the financial leader among nations, then we must freely exchange ideas not only among ourselves, but also with the people of other countries; and although we may not agree with other nations on governmental or financial policies, much progress can be made by discussing any subject which so vitally affects everyone as does the stabilization of money.

It is to be hoped that some helpful ideas may be worked out on this very important subject of monetary stabilization, so that ultimately a workable scheme may be evolved, the adoption of which will better stabilize the medium of exchange and price levels not only in this country but throughout the world.

MONETARY POLICY

Extracts from Speeches

on the

BUDGET DEBATE

20th and 21st April, 1932.

BY THE

RT. HON. SIR ROBERT HORNE, M.P.

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Monetary Policy.

Sir ROBERT HORNE: Although as I believe the tariff is of first-class importance, it is in present circumstances entirely over-shadowed by the question of currency. The truth of that assertion will become obvious if we think for a moment that the rise in the value of the pound sterling, such as occurred three weeks ago, from about 3 dollars 50 cents to 3 dollars 80 cents entirely wipes out, so far as checking imports is concerned, the 10 per cent. duty. It is, therefore, clear that it is no good having a tariff policy unless we also have a currency policy. How can the Advisory Committee on Import Duties deal with any question of tariffs unless they have some sort of idea about the kind of level on which we intend to maintain the pound? That fact has been implicitly recognised by the Government. Whether we like it or not we are now in the situation of having a managed currency, and that the management is going to assume a determined character has been made plain by the announcement of the Chancellor of the Exchequer that he intends to ask from the House, authority to borrow £150,000,000 for the purpose of equalising the exchange.

These questions of currency always seem very remote from the ordinary life of the people, who have not had to consider them for more than 100 years, and yet the question of currency sits down at every table that is spread with a meal in every cottage or castle throughout the country. It very intimately concerns us in the House of Commons. Aristotle said long ago that money exists not by nature but by law. It is the law that gives it efficacy. It is the law that says what is legal tender. It is in this House that we make the law. We were the people who decided about our return to the Gold Standard. We were the people who gave authority for the amount of fiduciary issue that should be put out by the Bank of England. We are the people who only a few weeks ago gave authority for £15,000,000 to be added to the 4.30 p.m. fiduciary note issue. In fact we are, God help us, the people who have to manage this currency,

under the advice and through the means of the Chancellor of the Exchequer using as his instrument the Bank of England. I hope therefore I need make no apology for my intrusion on this subject. For our duty's sake, we cannot regard these as matters which are to be looked upon as an impenetrable mystery into which no sacrilegious nose may be poked. We have in our responsibility to our constituents to consider how this currency ought to be managed, and upon what principles. I say that I do not feel that I need apologise for my intrusion into these matters, but I do apologise for the ignorance which will be found in every sentence of my remarks. Nevertheless I will venture to say how I think this question should be dealt with.

If you are going to manage currency it is clear that you must have some objective in view. A knowledge of your objective is of paramount importance to people who are doing business in this country. Business with foreign countries is difficult enough in normal times, but it is paralytically difficult at a time when the trader does not know how he stands in the matter of his own currency. You may say you can buy forward exchange but there are many countries for which you cannot get forward exchange.

The number of times that a person like myself is asked "Where do you think the pound is going" is poignantly great. I am constantly being told by persons that they cannot live if the pound goes above this figure or that, and every figure that has ever been mentioned in that way is less than the figure at which the pound stands to-day.

I hope that I am not unduly pressing this matter, but I do want to put to the Chancellor of the Exchequer the suggestion that he should go to the utmost limits of discretion in the disclosure he makes to the business people of this country of his monetary policy. Nobody wants to know what transactions are being effected in the exchange department of the Bank of England. There are many deals and negotiations which will take place which can only be effected successfully if other people do

not know what you are doing. But it is an entirely different matter to let the people of this country who are trading upon your pound know what they have to expect so that they can make their contracts with some confidence. What then should be the guiding principle? I will venture to read to the Committee a statement in the report of the Macmillan Committee which I do not think has received the attention it deserves. It is one of the most emphatic and striking statements that has ever come from a committee set up by a Government. On the subject of prices they say this:

"To allow prices to be stabilised at approximately their present level would be a serious disaster for all countries of the world alike; and the avoidance of such an event should be the prime object of international statesmanship. Our objective should be, so far as it lies within the power of this country, to influence the international price level, first of all to raise prices a long way above the present level and then to maintain them at the level thus reached with such stability as can be managed. We recommend that this objective be accepted as the guiding aim of the monetary policy of this country."

I do not propose to argue that point of view. I accept it as sound, and given by one of the most important committees that has ever discussed monetary problems in this country. Some people take a different view, but they are very few in number. Let me illustrate what the Macmillan Committee stated in that paragraph, keeping in mind that prices have fallen a considerable distance since that report was issued, so that our condition is worse now than it was then.

If hon. Members will think for a moment, they will see that prices are the source out of which costs of production are paid. These costs of production embrace various things. For example, they embrace rates and taxes, interest on debenture debt, and wages. The level of prices would be quite immaterial if you could always automatically bring down the level of your costs to the level of prices, but you cannot do it.

There is a whole lot of these costs which are rigid. Your rates and taxes, instead of tending to come down, always tend to go up, and the interest on your debt is a fixed charge of which you cannot get rid. In regard to wages,

while they are more elastic than these other costs, they are still relatively inelastic, and it would be impossible, from a social and political point of view, to reduce wages to-day to the extent to which wholesale prices have fallen. If you take the year 1923, you will find that since then wholesale prices have fallen by 25 per cent. Wages have fallen only by 3½ per cent. It is quite plain that you could not have brought down wages to the extent to which prices have fallen. In normal times these things tend to adjust themselves over a period. In good times you can make up for what you have lost in bad times, but the fall in prices in recent years has been so devastating that you are now at a point when it is quite impossible to compensate for the fall that has taken place. The vast fall in 1921, and the fall that has now taken place, has meant that prices to-day are not only below the 1913 level, although costs are a great deal higher, but that in a great mass of cases they are well below the cost of production. This is the blight from which the world is suffering. You can see how it affects this country. If you compare 1924 with the present year, you will find that the Budget expenditure of that year is approximately the same as the expenditure for the current year, but we have to meet it this year out of prices which are 40 per cent. lower than the prices in 1924.

Take another illustration. Take the question of Debt. The Debt which we have to carry to-day, if you consider it in relation to wholesale prices, is 1.94 times as big, nearly twice as heavy as the figure at which the money was borrowed, and what looks like a Debt of £7,000,000,000 or £8,000,000,000 is in fact, by the fall in prices, a burden which is increased to £14,000,000,000 or £15,000,000,000. It is not to be wondered at that the Macmillan Committee put forward the question of prices as being one of the vital factors in our economy; and they said that there was no other way to retrieve the world's lost prosperity except by getting prices up to a level much higher than at present and sustain them upon that level.

The worst, the most pitiable, victims of this terrible economic disaster are, of course, the primary producing countries.

They are in the main the borrowing countries, the newer countries of the world. What has happened to them? They have now to find in commodities twice and in some cases three times as much to meet the interest on their debt as was necessary at the time the money was borrowed, and with the cost level at which they have to work it is impossible for them to do it. The result is that you have had defaults in many countries, and if this condition persists you will have many more. In that way, it also affects creditor countries. If we are unable to collect the interest on some of our loans to that extent our investment income is depleted. It also affects us in our trade. The purchasing power of these primary producing countries is cut in two. Take the case of Australia. In 1930 Australia bought in metals and machinery £23,000,000 worth of goods. In 1931 she only bought £8,000,000 worth. In 1930 she bought in textiles and apparel £33,000,000 worth of goods, but last year only £12,000,000 worth. Thus, again, countries are hit which draw revenue from trade. This is one of the sources of loss from which our trade balance is suffering.

Take another item in this bill. We have been fixing our attention rather upon the serious adverse balance of our trade in respect of the exchange of goods, but the loss in investment income has been a very serious one. Our investment income between 1929 and 1931 from overseas has dropped by £80,000,000. This decline has been caused because the earnings of the countries in which British people have investments in railways and docks and mines and other adventures have all come down owing to the fall in prices. You can see this evil spreading not only through all the countries which are in difficulties, but immediately attacking the strength and power of creditor countries. That is one of the reasons why we were forced off the Gold Standard last September.

Is there anything that we can do to alter this situation within our own circle? I think there is. The Treasury and the Bank of England are, I take it, going to be the chief means by which the condition of things here will be reversed, through prices being raised. You cannot help matters—you can only worsen them—by having a rise in the pound. What

is the result of the pound going up from 3.50 to 3.80 dollars? The effect is immediately to put a check on our exports because it makes it dearer for other people to buy. Further, all our debtors are less able to meet their debts. Australia could never have met her obligations to this country in the last few months if sterling had stood at gold parity. Her situation has been greatly eased by our being off the Gold Standard. But every time your pound rises you increase their difficulties. Moreover, a rising pound brings a great deal of bad money here. By bad money I mean that which can be abstracted at short notice and do you great harm. Again, a rising pound makes it more difficult for you to keep on a par with those other countries which have gone off the Gold Standard. Sweden and Denmark have already found it too difficult to maintain their position relative to a mounting sterling.

Everything ought to be done, it seems to me, to make it possible that we shall keep as large a sterling area in the world as possible. As I understand the project of the Treasury and the Bank of England, it is a great source of hope in dealing with this matter. I say frankly that to me it was the factor in the Budget which seemed far and away the most important. As I understand the matter, with this fund of £150,000,000 and such other sums as they have at their disposal, they will be able to maintain the exchange value of the pound practically at any level they like. The Chancellor of the Exchequer was very careful and cautious in what he said upon the matter, and suggested that there would be circumstances in which it might be impossible to take such effective action. So far as I can see, it will not be necessary to prevent the pound declining. The revived confidence of the world in this country will prevent any ill-happening of that kind. The only difficulty will be in preventing the pound from going too high. At least that is how I envisage the situation.

There is only one consideration which may make it too difficult for the Treasury and the Bank of England to stop the pound from rising against them, and that is one which I hope we are not going to contemplate. There are rumours in the world that America may go off the

Gold Standard. Frankly, I do not believe that anything of the kind can or will happen. The gold resources of the United States are quite sufficient to meet any situation that might arise. At any rate, we of all people should be the last to give any credence to such opinion. The mere fact that we refuse to believe it possible will be a great help in stiffening their position. A persistent flight from the dollar is the only circumstance which would make it difficult for the pound to be kept at such a level as the Treasury may desire.

Of course, this assumed action on the part of our monetary authorities would naturally raise prices in this country. I want to say a word upon that matter lest anyone should be frightened about the situation caused by a rise in prices here. I do not understand the speeches of those who congratulate us on the fact that prices have not risen. The real fact is that unless prices rise in this country we shall not get the full compensation which we ought to get by going off the Gold Standard. It will not make the industrialist any better able to bear the burden of the taxation that he has to pay, the debt he has to carry or the charges he has to meet on his borrowings for his business. Accordingly, a rise in prices seems to me the first necessity in this country. I hope that no one feels timid about such a contingency.

Lest anyone should believe that the country would suffer any detriment, let me recall a state of matters which is well within the recollection of all of us. I ask hon. Members to carry their minds back to 1928. I am sure that none of us thinks that in the year 1928 we were in an intolerable position because of the prices we had to pay, or that life was too difficult for us to bear. Yet wholesale prices are 25 per cent. less now than then. The cost-of-living retail prices are now 11½ per cent. lower than they were then. They have never followed the full drop in wholesale prices. Wages are only 3½ per cent. lower. It is obvious from these figures that wholesale prices can rise a considerable distance before they begin to affect retail prices at all, and that retail prices and wholesale prices can rise together to another very considerable extent before anyone is worse off than in

1928. That, accordingly, is a situation which we can face with equanimity.

The illustration leads me, greatly daring, to carry my argument a little further. 1928 shows a level of prices 25 per cent. higher than now. Suppose that you depreciate your pound in something like that degree. You will get down to a figure which is in the region of \$3.60 cents. If in order to make your position fairly certain you were to put it down a small margin further, it seems to me that you would arrive at some sort of figure—

Colonel WEDGWOOD: Did the right hon. Gentleman say \$3.50?

Sir R. HORNE: I said \$3.60, but I am not really unduly concerned about the absolute figure. What I am rather concerned about is that the policy of the Government should give sufficient indication to the traders of the country that the pound is not going to rise above a figure in that region. If this assurance were given either by an announcement which the Bank of England might not like to make or by the obvious action which could be taken in the market, and which everyone would understand, I believe you would take a great burden off the traders of this country and enable them to conduct business with far more enterprise and courage and hope than they do now. What would be the effect of a rise in prices in this country? In my view it would extend to the whole area which is now trading upon sterling. You can see what the immediate effect will be. As soon as people who have to buy goods know that there is to be a rise in prices they will come into the market and lay in the stocks which they have long ago depleted. You would have purchases from all parts of the world within the sterling area, and accordingly you would exercise at once a wide influence over more than half the world.

I believe that that would be a great thing to do. But I recognise that it is not all. The hon. Gentleman who preceded me to-day referred to the absence of any suggestion about world conditions in connection with this Budget. I agree with him that we not only cannot shut our eyes to world conditions but that we cannot properly envisage our own policy unless we have regard to what is happening elsewhere. While to create

this sterling area, which I have vaguely indicated, would be a great achievement for this country and would be a steadying element in the world's trade, it is not the same as if you had all the world trading together as they did before the War. Now, as the Macmillan Committee pointed out, one of the clogs upon progress, one of the causes of distress and depression, if not the main cause, has been payment of Reparations and War debts. They have indicated that to get rid of this incubus or alleviate it is the first step which ought to be taken in order to relieve the despair from which the world is suffering. I am sure that, although it is possible to exaggerate the effect of the payment of Reparations and War debts, nevertheless it has had a paralysing effect, especially in recent time, upon the imagination of the people of the world, and I am confident that there is nothing which would so change the psychology of all the nations and give them an idea that you were at last taking a new movement in a forward direction, as a settlement of this great problem.

Those who go to Lausanne have upon them a greater responsibility than has ever been laid upon the shoulders of any council of Ministers in the history of the world; for they have nothing less than the fate of the modern world in their hands. I am glad to think that Britain will be speaking at that Conference with a revived authority. I hope that our Ministers will be able to keep out of the discussion the ordinary ambitions, the balancing of powers, the consideration of circles and spheres of influence, and all the old-world hostilities. I hope they will be able to make it clear that altruistic compromise is now the real road to enlightened self-interest. In the present condition of the world no nation can possibly profit by the distress of its neighbour. It is only by combination, by the combined efforts of all the statesmen of Europe that anything can now be done which will give the world a turn towards prosperity.

It appears fantastic to think that questions of currency can have such an enormous effect upon the life of peoples, and that such a device as the medium of exchange can exercise so great an influence upon the fortunes of mankind.

It almost seems as if man had created a Frankenstein which would now destroy him because he has lost the key to the mechanism. But let the historian speak upon this matter. Sir Archibald Alison points out in his "History of Europe" that what ultimately brought about the fall of the Roman Empire was the lack of that specie which they had been accustomed to get from the mines of Spain and Greece. If I may read to the Committee a passage in which he refers to the matter it may clarify the view which I am endeavouring to present. He said:

"Rome, saved in its utmost need by an expansion, sank in the end under a still greater contraction of national currency. The supply of currency for the old world became inadequate to the increasing wants of its population. The mines of Spain and Greece, from which the chief supplies were obtained at that period, were worked out, and so great was the dearth of the precious metals that the treasure in circulation in the Empire, which in the time of Augustus amounted to £380,000,000, had sunk in that of Justinian to £80,000,000 sterling. As a consequence of so prodigious a contraction of currency, debts and taxes, which were measured under the old standard, became so overwhelming that the national industry was ruined; agriculture disappeared and was succeeded by pasturage in the fields; the great cities were all fed from Egypt and Libya and the revenue became irrecoverable."

In that picture I think we may see some of the features of our present situation, and perhaps it is well that we

5.0 p.m. should take warning by the historic sequel. Rome, as everyone remembers, plunged into the abyss, taking much of civilisation with her, and for many generations thereafter the world existed in the dismal twilight of the Dark Ages. There are people so complacent as to think that nowadays we are past all that kind of trouble and that the world always will "muddle through," and they are content to stand idly by and do nothing to prevent such catastrophes. But, believe me, there is nothing in human nature or in history to justify any such complacency. The world can only be saved by the efforts, intense, immediate, persistent, broad-minded, and far-seeing of the statesmen who are charged with the destinies of the nations.

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Mr. AMERY: . . . The one thing that matters to-day is production, and that depends upon two closely inter-related lines of policy. The first is our fiscal policy, and the second is our monetary policy. You cannot divorce the two. You cannot frame a monetary policy unless your fiscal policy gives you control of your balance of trade, and you cannot frame a satisfactory fiscal policy unless you know broadly what your monetary policy is going to be.

It is vital to the business world to know what is the monetary policy of the country. Monetary policy has always been one of those things, little followed and little understood, but exercising a tremendous and pervasive influence on the humblest home and on the fate of the mightiest Empires. My right hon. Friend (Sir R. Horne) quoted Aristotle's saying that "money is a matter of law" in order to remind us that monetary policy is something for which this House is directly responsible. He might perhaps have carried on the Aristotelian quotation which went on to say that "its value depends on its quantity". The adequacy or insufficiency of the volume of money to the requirements of national or world production has had the most potent influence on the whole course of history. My right hon. Friend quoted a most apposite and suggestive passage from Alison to show the influence of currency contraction upon the fate of the Roman Empire. But that instance does not stand alone. Can anyone doubt that the discovery of America and the immense volume of new currency brought into the Old World played a tremendous part in that amazing efflorescence of European energy and effort in industry, art and science in every direction which characterised the 18th century? Or, to come nearer to our own time, can anyone doubt that one of the causes of the long depression after the Napoleonic wars was that the supply of currency, in the banking conditions of those days, was inadequate to the expansion of industry consequent upon the industrial revolution? It was not till you got the great gold discoveries in California and Australia from 1849 onwards that you got the stimulus of adequate money supplies and 30 years of economic prosperity. At the end of the 30 years you had a number of Governments demonetising silver,

thus suddenly and drastically reducing the volume of money and bringing about the same kind of phenomenon with which we are confronted to-day. The fortunate accident of the discovery of the great gold field in South Africa redressed that situation and enabled the world to go on.

In dealing with a matter of such supreme importance, it is vital to know what the Government's policy is. For the last six months the Government has, naturally, been engaged in protecting sterling against two dangers. The first, the danger of lack of confidence in the world outside due to the unbalanced state of our Budget; the second, the drain upon sterling arising from the unbalanced state of our trade account. There is, however, another factor against which we need protection, and against which the Chancellor of the Exchequer is now providing protection in the Exchange Equalisation Account, and that is the danger of speculation. There is at this moment a very large volume of liquid money, "bad money," in the world rushing from one investment to another exactly like a mass of water loose in the hold of a ship, slopping from one side to another and continually aggravating the instability of the situation. The Chancellor is to be congratulated on having provided himself, in this Exchange Equalisation Account, with an instrument, a "mass of manoeuvre", adequate, but by no means excessive, to deal with that dangerous fluctuation. He will use it, I trust, to pursue a monetary policy that is in the interests of production in this country and in the Empire. There is one point in what he told us that I am not altogether happy about. He mentioned that he was fixing the relation of notes to their gold backing on the old parity and described that as a conservative valuation. An overvaluation of 30 per cent. is not a conservative valuation. It only indicates that someone is still hanging on to the gold mentality and is still concerned with a deflationary policy. Surely under present conditions our gold reserve is like any other security at the back of our notes, and ought to be taken at the average of the actual value over any reasonably short period of time.

I would support my right hon. Friend in earnestly pressing the Government to tell us their general monetary policy. Do they, for instance, subscribe to the

general objective laid down by the Macmillan Committee that it is essential to influence the price level so as to raise it a long way above the present level and to maintain it there with as much stability as possible? Ten months have passed since the Macmillan Committee reported, and we have never been told whether the Government in any degree associates itself with that authoritative report. There is one thing that I should like to point out about that recommendation of the Macmillan Committee. It referred to the raising of the international price level. There was no question then of dissociating our price level from the world price level. More than that, it was impossible for us at that time to think of setting up a price level for this country alone seriously different from the price level outside. That would, undoubtedly, have very rapidly involved us in far too serious a rise in prices. The first effort we had to make last autumn was to control sterling and prevent it running away. But, after we controlled it, an entirely new phenomenon arose. That is the fact that something like 500,000,000 people in the rest of the world were prepared to follow our example, and attach themselves to a controlled sterling. We enjoy to-day the advantage of a sterling price level over an immense area, which includes the greater part of our producers of foodstuffs and raw materials and, happily, does not include our most formidable industrial competitors. That completely alters the situation. It enables us, once we control our own sterling, to follow a price level policy which for many purposes is as effective as making a world price, because whatever we do will be followed, as long as our policy is a reasonable one, by the other countries that adhere to sterling.

In this connection there are two aspects of the sterling level that we have to consider. There is, first of all, the level of sterling relative to gold. That is a very uncertain and fluctuating factor, because it is affected not only by changes in the value of sterling, but also by changes in the value of gold. A far more important issue is what is to be our price level relative to the price level at which most of our contracts were made, at which our business undertakings shouldered the burden of their overhead charges, the level at which wages were more or less

stabilised after the War and at which also retail prices were more or less stabilised? That is a far more important issue. The question which we are entitled to ask is whether the policy of the Government is, or is not, to endeavour to bring back the sterling price level in terms of commodities, of wholesale prices, to the general level of 1928 or 1929? Only if you do that will you get any real revival of production in this country or in the Empire. At present, as my right hon. Friend pointed out so eloquently, we are in a vicious circle in which the producer cannot produce at a profit and therefore cannot buy the things he wants from us and cannot even pay the debts he owes. We must get out of the Serbionian bog of the present price level. To do that should be the first and main objective, and the declared objective, of the policy of this country. On that issue we have had no declaration yet. I would also add, now that sterling is the monetary basis not only of this country but of a great many other countries which have associated themselves with us, that those who manage it ought to remember that they must manage it in the common interest, and not merely from the point of view of the immediate narrower interests of this country, still less merely of the City of London.

It is essential, when we go to Ottawa, that we should go with our minds made up upon the general outlines of a monetary policy which will meet the interests of the Dominions as well as of ourselves. Exactly where that level is to be found, how we are to find a level to meet the interests of the Empire producer generally and yet also hope to associate Canada with ourselves, is not an easy matter to solve. I am not in the least suggesting that the Government should at this stage make up their minds upon the details of their policy. It may well be that the details of any policy cannot be settled even at Ottawa, but will require some expert conference to follow. All I plead is that the Government should go to Ottawa with the general direction and objective of their monetary policy clearly defined to themselves, and defined in such a way that we should have a reasonable hope of persuading the rest of the Empire to associate themselves with us. I do not know whether the Cabinet have instituted any cabinet committee to deal

with the monetary problem at Ottawa as they have appointed a committee to deal with the fiscal policy, but I respectfully urge that the monetary question is going to be no less important at Ottawa than the fiscal question, and that our representatives ought to go to Ottawa as well equipped, not only by study but also by definiteness of purpose, on the one theme as on the other.

I fully agree with what my right hon. Friend the Member for Hillhead (Sir R. Horne) said when he indicated that a solution of the monetary problem for the Empire and for such other countries as may associate themselves with it in the sterling system, while it is the most immediate thing and of immense importance, is certainly not the only thing at which we should aim. Clearly the world would be better off if we can eventually establish a monetary system which would enable free exchange to take place over the whole world at a price level stable between the different countries in the world and also stable between one year and another so as to prevent the recurrence of the disasters to which we have been subjected in the last two or three years. Such a system, to my mind, should include the whole world and therefore ought, in one form or another, to fit into the scheme the great silver currency markets of the East. You must, no less than in an Empire scheme, secure a price level sufficiently high to enable world industry and production to be carried on.

Mr. MAXTON: You must not leave out the United States.

Mr. AMERY: I do not despair of the United States joining in at all. We must try, step by step, to secure a general world system. At the same time, I am convinced that the right way to find a world solution is to deal with our own problems first. We have to build up progressively. Let us give this country a sound foundation of industrial and monetary policy, and on that foundation let us build the super-structure of a sound Empire production and monetary policy. When we have done that we shall be in an infinitely stronger position, for the good of the world as a whole as well as in our own interests, to link up again with gold or with silver, to re-establish a world system, at such time and on such terms as will not only coincide with our

own interests but will, in our opinion, really endure and save the world from the recurrence of the calamities through which we have been passing.

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Mr. CHURCHILL: As I left the politics of yesterday for those of to-day, I now leave the politics of to-day for those of to-morrow. Whatever be the success of our British tariffs, I do not believe that they alone will solve our social and economic problems. Still less will they alone solve the world problems, or end the awful and deepening economic depression of mankind. Those problems, that depression, industrial, agricultural, maritime, still confront us, as they confront all other countries. We are in a far better position to address ourselves to these problems than we were last year, and than we were six months ago. We have gained an immense three-fold advantage. We have in this new House of Commons, and, mark you, it is this new House of Commons which is the real dominating and decisive factor in our politics at the present time, a guarantee of political stability. We have in this Budget, I know my right hon. Friend will forgive me, this bleak Budget, at any rate the assurance of financial solvency, and we have a weapon of unequalled, almost unprecedented, power in a country like ours which is quitting Free Trade after so many generations—the weapon of fiscal freedom. With these three advantages we had not got last year, advantages which no other nation has in the same way—political stability, financial solvency and fiscal freedom—surely, thus armed and equipped we can march forward against the main causes of world misfortunes with good hopes that we may solve them, and certainly with the assurance that no one will fight a more valiant battle than the people of this island to find a way through their difficulties.

Many diseases are more easy to diagnose than they are to cure, but it is something, at any rate, to diagnose an evil, even if you cannot immediately prescribe a remedy. Fortunately, there is very general agreement in this country among thinking men upon the evil. No one who heard the speech of my right hon. Friend the Member for Hillhead (Sir R. Horne) yesterday, or observed its recep-

tion in all parts of the House, can doubt how wide is the measure of prudent and general agreement gathering upon the monetary question. It is accepted almost without dispute in England that the prime cause of all our troubles is the attempt to pay these huge sterile War Debts and Reparations across high tariff boundaries that will not receive goods, and thus payment has to be made in gold. The small and limited supplies of gold, which have hitherto served as the foot-rule or measure in our affairs, have been purloined and misappropriated for a purpose for which they are wholly unequal, for liquidating these gigantic debts.

This it is which has led in three short years, very suddenly and very swiftly, upon America stopping relending to the unhealthy engorgement of gold by particular countries, which have a special benefit from Reparations and War Debts. It is this which has led to the consequent cornering of gold and the consequent sterilisation of large portions of gold and the consequent enhancement in the price of gold, and to the automatic and simultaneous diminution in the value of everything else which is made to-day or can be made by our efforts to-morrow. There is the root evil. Out of all the tangles and clouds of argument we can see quite plainly this knobby point projecting: the artificial enhancement in the price of gold and the consequent fall in the price of everything that is measured by it. Gold is a measure. It is a measure between the efforts of one country and another, between man and man, between class and class, between the past and present; but I regret and grieve that it is a measure which has played the traitor. Poor devil; it may not be its fault; but that is the fact.

When I was moved by many arguments and forces in 1925 to return to the Gold Standard I was assured by the highest experts, and our experts are men of great ability and of indisputable integrity and sincerity—

Mr. WALLHEAD: And they are always wrong.

Mr. CHURCHILL: The hon. Member is not always right—that we were anchoring ourselves to reality and stability; and I accepted their advice. I take for myself and my colleagues of other days

whatever degree of blame and burden there may be for having accepted their advice. But what has happened? We have had no reality, no stability. The price of gold has risen since then by more than 70 per cent. That is as if a 12-inch footrule had suddenly been stretched to 19 or 20 inches; as if the pound, avoirdupois, had suddenly become 23 or 24 ounces instead of—how much is it?—16. Look at what this has meant to everybody who has been compelled to execute their contracts upon this irrationally enhanced scale. Look at the gross unfairness of such a distortion to all producers of new wealth, and to all that labour and science and enterprise can give us. Look at the enormously increased volume of commodities which have to be created in order to pay off the same mortgage debt or loan. Minor fluctuations might well be ignored, but I say quite seriously that this monetary convulsion has now reached a pitch where I am persuaded that the producers of new wealth will not tolerate indefinitely so hideous an oppression.

Are we really going to accept the position that the whole future development of science, our organisation, our increasing co-operation, and the fruitful era of peace and good will among men and nations; are all these developments to be arbitrarily barred by the price of gold? Is the progress of the human race in this age of almost terrifying expansion to be arbitrarily barred and regulated by fortuitous discoveries of gold mines here and there or by the extent to which we can persuade the existing cornerers and hoarders of gold to put their hoards again into the common stock? Are we to be told that human civilisation and society would have been impossible if gold had not happened to be an element in the composition of the globe? These are absurdities; but they are becoming dangerous and deadly absurdities. They have only to be asserted long enough, they have only to be left ungrappled with long enough, to endanger that capitalist and credit system upon which the liberties and enjoyments and prosperity, in my belief, of the vast masses depend. I therefore point to this evil and to the search for the methods of remedying it, as the first, the second and the third of all the problems which should command and rivet our thoughts.

This new House of Commons contains a great number of new and young legislators. I commend this problem to them as the supreme topic of the age. You may ask me for a remedy; what would I do? I am not going to be led into that intricate domain in which experts differ fundamentally upon questions to which they have given a lifelong study, but I do see two practical forward steps which we may take, and which we ought to take. A major step if possible; a minor step if the major is denied to us. What is the major step? Here I am going to be quite precise. The major step is obviously the close and effectual comradeship of this country and the United States of America, the two great creditor nations of the world, the two great English-speaking nations, in an agreed purpose to reflate and revalue commodities in relation to gold up to, let us say, the 1928 level; that is to say, up to a level which affords the producer of prime commodities and raw materials, the industrialist or the agriculturist, a reasonable reward for his toil, and which by affording him a reasonable reward will enable these prime producers to buy again the manufactures of the cities and workshops of the world.

Therefore, I say that His Majesty's Government should address themselves urgently to the Government of the United States, and they need not be afraid in so worthy a cause of encountering a rebuff. If to-morrow the English-speaking people were agreed upon the main purpose, if they were agreed upon a policy, France, in spite of her hoarded gold, would have to seek admission to our councils the next morning, and these three Powers, together with others, would be able to give guidance and chairmanship and primacy to the councils of nations, without which all may speedily degenerate into chaos or a melancholy low level of misfortune. I may be told that we cannot talk to the United States of America because they are busy about their election; that we do not know who is going to govern the United States; that we do not know whether they have at this moment the inherent capacity to make an arrangement and carry it through. We may have to wait for many critical months, and we may find after that that no agreement is possible. All

right, do your best, but, if nothing can be done there, let us fall back in the meanwhile upon what I must regard as the minor step, the second best, which, nevertheless, may prove a highly practical policy and may become the means of our economic salvation. Let us fall back, as His Majesty's Government, as far as I understand their policy, seem most wisely disposed to do, upon what I will call the magnificent congregation of sterling communities. Let us make the best of that in default of a better. We can live on that, even if we may not thrive.

I read a speech last week by the Norwegian Minister of Finance, delivered in the Norwegian House of Commons upon the sterling policy of Norway, and he said:

"Do not let us quit the convoy."

or words to that effect. It is a curious similitude; it is an echo of the last years of the War, when Scandinavian convoys were conducted to and fro across the North Sea in the teeth of every menace by hostile fleets and submarines by the power of the Royal Navy. "Do not let us quit the convoy." In this case, instead of the Royal Navy, it is the power and virtue of Britain which guards the sterling convoy and brings the good ships safely across the ocean into port. Great responsibility falls upon us at the present time. We have to steam a steady pace. We have to consider the slower and weaker ships. We have 4.30 p.m. to adapt ourselves to circumstances, and be vigilant to ward off dangers; and we have to gather an ever-increasing company of vessels within the protection of the sterling convoy.

We shall have other opportunities, in the successive Debates upon the Finance Bill, of returning to these all-important monetary questions. Meanwhile, the measures of the Chancellor of the Exchequer give a greater steadiness to sterling, to fit it for its duties, without depriving it of that element of flexibility which the confused conditions of the world require. They ought to claim our hearty accord. It is for these causes, among several others, that I will certainly give my general support to the Budget which the Chancellor of the Exchequer has just opened.

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The Gold Standard in the Light of Post-War Developments

Edwin Walter Kemmerer, Professor of International Finance,
Princeton University.

THE first phase in the process of post-war monetary reconstruction was the return of the important commercial nations of the world to the gold standard. The passage of the new monetary law in France, which went into effect last June, marked the practical completion of this important phase. Since January, 1923, no fewer than thirty countries have taken measures to re-establish a fixed relationship between their currencies and gold. Some of these, e.g., France, Great Britain and Norway, have made the notes of the banks of issue once more redeemable in gold; others, including Italy, Greece, Chile and Colombia, have adopted forms of the gold exchange standard, which give the central bank the option of redeeming its notes in gold or in drafts upon gold standard countries; still others, whose notes remain inconvertible, are under legal obligation to maintain them at a parity with gold.

An important feature of these measures for re-establishment of the gold standard has been the widespread removal of the restrictions upon the international movement of gold, although such restrictions still exist in some countries.

These measures, as taken by the various countries, have resulted in stabilizing the foreign exchanges and in establishing a closer relationship between the movements of commodity prices in the different countries. All of this has been highly beneficial to international trade, which has suffered in the years since the war from the uncertainties of prices as expressed in the various currencies.

This general return to the gold standard has been a beneficial movement because, for present-day conditions, the gold standard is probably the best monetary standard that the world has yet devised, and I believe that nations which are not yet on a gold standard ought to make preparations to get there as soon as possible. It is a long step ahead of any fiduciary money standard with which the world up to this time has had any experience, and yet it is far from perfect, for the value of gold itself—or, in other words, the purchasing power of gold—is not stable. The gyrations in the value of the gold dollar since the end of the last century have been fully as violent as during any equal period in the history of our coun-

try. Between 1900 and the beginning of the World War, the purchasing power of the dollar fell 18 per cent. From 1914 to 1920, it fell 57 per cent., so that a bond bought at the beginning of that period had lost more than one-half of its value (or purchasing power) by the end of the six years. From the middle of 1920 to September, 1928, the purchasing power of the dollar rose 56 per cent. It is to this unsteady monetary unit that our financial and economic systems are tied.

Fluctuations in our most important unit of measurement have always been an evil since the institution of money was developed, but in the days when economic processes were simple, when economic operations were short and, in the main, carried on in the household, and when credit transactions were almost negligible, monetary instability was of much less serious consequence than it is today. The more specialized and long drawn-out our economic processes become and the more we resort to the machinery of credit, the more serious in its economic, moral and political consequences is the evil of instability. When individuals within the nation are tied together by innumerable contracts which are promises to pay a given number of dollars at future dates, say three months, six months, or several years hence, then the changing value of the dollar divides the nation into two great classes, with opposing interests, to wit: a class that consists of persons who on net balance are debtors and who would therefore profit by a depreciating dollar and lose by an appreciating one, and a class that consists of persons who on net balance are creditors and who would therefore profit by an appreciating dollar and lose by a depreciating one.

Dr. Willford I. King recently estimated that in the United States alone, within a period of five years, the unstable dollar thus blindly robbed some and enriched others to the extent of something like forty billion dollars—certainly a conservative estimate when one considers the volume of credit instruments now outstanding in this country. Not only are individuals bound together by these creditor and debtor relationships, but nations also, so that a small change in the value of gold may increase or decrease international debts by a purchasing power equivalent to many millions of dollars. If prices are allowed to go down, it becomes increasingly difficult for the debtor nations to pay their debts, and if they are allowed to go up, the creditor nations complain. This obviously has an important bearing upon international political relations and upon world peace.

Under present conditions, currency instability is, thus, a gigantic engine of wealth re-distribution that works night and day and works blindly. It seizes wealth here and gives it out there. It takes property from one class, without rime or reason, and gives it to another class; and then, in a short time, it takes wealth from the second class and gives it to a third. At one time, through inflation, it despoils the creditor. He may be an orphan with his inheritance invested in gilt-edge bonds. The rising price level may cheat him of a college education. He may be an old man whose savings for his old age are invested in government securities. The poor house or the charity of friends may be his only means of rescue. Or the injury may fall upon a widow living upon a fixed pension or a life insurance annuity, or it may fall upon an endowed institution, a hospital, a college, a library or a home for children or for the aged. All such creditors, and many others, suffered when the value of the dollar shrank over 70 per cent. in its purchasing power between 1896 and 1920. Even today, if they have been able to retain their investments, their incomes have a purchasing power of only about 44 per cent. of what they had in 1896.

But the creditors were not the only ones who found this period a difficult one. The salaried and wage earning classes found that their salaries and wages no longer bought the things they were accustomed to. Wages adjusted themselves but tardily, while the adjustment of salaries of government employees, judges, school teachers and technical experts, dependent on legislative action, came very slowly and is still incomplete. Often several hardships resulted and savings were eaten up before anything like complete adjustment was made.

During this period of generally rising prices, the manufacturing and commercial classes were for the time being the gainers. The more violently the value of the dollar moved downward and the price level rose, the more they stood to gain on their transactions, for the dollar value of commodities and real estate increased while they held them, and it was increasingly easy for those people to pay their debts.

The margin in dollars between costs and selling prices widened. The opportunity for profits on these widening margins increased. Investments in goods were profitable, so merchants and manufacturers borrowed money to increase such investments. They paid these debts in dollars which were less valuable than those they borrowed. Stockholders

gained at the expense of bondholders. Many farmers also shared in the gains, for it became easier for them to pay off their mortgages and other debts as their lands and products increased in money value.

With the coming of a falling price level and a dollar of increasing value, the tables were turned. Merchants and manufacturers then found it difficult to pay their debts. The money value of their products and merchandise faded while they held them. The mere holding of goods might and did thrust thousands into bankruptcy. The margin in dollars between costs and selling prices decreased and in some instances was wiped out altogether or even became a negative quantity. The farmers who had bought land during the period of inflation were burdened with mortgages on which they could not pay the interest, because the prices of farm products had so greatly declined. Creditors were paid in dollars of increased value and flourished to the extent that debts were paid. The bondholder gained at the expense of the stockholder.

Thus, monetary instability, the great engine of wealth re-distribution, brought in its train social and political discontent. The injured group, in each case, was always bitter and loud in its claim for legislative relief.

This engine of wealth re-distribution, which, left uncontrolled, may bring all these disasters, is subject to control. The indicator, which by its movement gives notice that changes are taking place in the distribution of purchasing power, is the general price level. When it moves substantially either up or down, we know that certain classes are being favored at the expense of others. If, at the warning of the indicator, control could be exerted in such a fashion as to obviate material further changes, exerting a progressively increasing downward pressure upon a price level that was rising and a progressively increasing upward pressure upon a price level that was falling, then the disasters and injustices now resulting from an unstable dollar could be avoided.

That is the problem of monetary stabilization with which the nations of the world are confronted today.

Fortunately, during the last six years, thanks largely to America's important position in the world's credit market, her enormous accumulation of gold and the wise administration of her Federal Reserve System, working in co-operation with central banks of other important countries, gold monetary units throughout the world have been reasonably

stable in value. This gives us a clue to one means of control. The central banks can, through their "open market operations" and changes in their rediscount rates, exert considerable control over this engine of distribution, particularly over its minor operations. We are still, however, in a period of experimentation in control by central banks, and it is doubtful if they could accomplish much against strong long-run forces working for instability in the value of money, like, for example, great changes in gold production.

The favorable conditions which made it possible for the Federal Reserve System to bring about a certain degree of world stability in purchasing power are disappearing with the return of a free gold market and with the consequent exportation of gold from this country to build up the gold reserves in those nations which are returning to a gold standard. Moreover, America cannot and should not in the future carry such large percentages of gold reserves for the benefit of the world at large as she has been carrying in recent years; both the expense and the responsibility involved are too great for one country.

The problem is an international one and the responsibility should be borne jointly by the central banks in the money markets of the world. The frequent conferences of the governors of the New York Federal Reserve Bank, the Bank of England, the Bank of France, the Reichsbank and other central banks which we have seen mentioned in the press in recent years are hopeful signs. International conferences dealing with this subject, like the Genoa Conference of 1922, are likely to occur more frequently in the future than in the past because of the existence of the League of Nations.

The Genoa Conference was one of special importance. It recommended that, once the foreign exchanges had been stabilized on a gold basis, monetary policy should endeavor to regulate credit, "not only with a view to maintaining the currencies at par with one another but also with a view to preventing undue fluctuations in the purchasing power of gold."

With the return of the nations of the world to a gold basis, this question has again arisen in the League of Nations. Last May the Economic Consultative Conference adopted a resolution stressing the danger of undue fluctuations in the purchasing power of gold, because of their effects upon industry, agriculture and employment, and recommending to the Financial and Economic Organization of the League that they give attention to this problem. This latter organization has

agreed to undertake an inquiry into what the League may do to assist in its solution. Thus the attention of the world is being focussed upon the question of the means of stabilizing the gold standard.

There are two aspects to the problem; one has to do with the supply of gold and the other with the demand for gold. If the supply of gold fails to keep pace with the demand for gold, the world will suffer from the evils attendant upon deflation and falling prices; while, if the supply should outstrip the demand, the world would suffer from the evils of inflation and rising prices. Both are capable of control.

The world's supply of monetary gold may be increased by the mining of gold and by regulating the flow of gold into the arts. There are few, if any, great industries in modern life that are "affected with such a great public interest" as is the production of gold, yet it is carried on in a purely *laissez faire* way without international or even national control in the public interest.

The world's future production of gold is a great uncertainty. Whether it will increase more or less rapidly than the world demand for gold is highly debatable; and, if our present gold standard is continued without rendering it adaptable to a changing supply of gold, the question is a highly important one, for upon its answer will largely depend the welfare of literally hundreds of millions of people.

At present the annual production of gold is still less than it was before the war, although it has increased substantially since 1922, and there are hopeful signs of continued increase. The cost of production in the best mines is lower than before the war. The gold production on the Rand in the Transvaal has been increasing. New gold-producing areas are continually being discovered and it does not seem at all improbable that new methods may come into use in the future that will materially reduce the costs of production and bring into use lower grade ores than are today being worked, and of such ores there are enormous quantities available. As for the arts, roughly speaking, something like a half of the world's gold production normally flows into non-monetary uses.

One can imagine few things that are "affected with a greater international public interest" than the value of gold for monetary purposes, and, on the other hand, one can imagine few things that are "affected with less international public interest" than the principal uses for gold in the arts. Probably the flow of gold into these uses could be materially

restricted by taxes and other governmental measures, if need be, thus leaving to monetary uses a larger proportion of the total annual production than that now obtained under conditions of completion with industrial uses. If the purchasing power of the gold unit is not to be left to the gyrations resulting from the changes in an uncontrolled production, attention must also be given to the problem of controlling the demand for gold. We need to learn how to economize gold when we have too little, so as to prevent the evils resulting from deflation; and we need to have protection against a too abundant supply of gold, if we are going to escape evils attendant upon inflation.

The establishment of the Federal Reserve System made possible economy in the use of gold by mobilizing the reserves for most of the large banks of the country in the Federal Reserve banks, but, with the flow of gold to this country and the resulting large gold supply here, it became necessary for the Federal Reserve System to experiment in "sterilizing" a portion of this gold so that it would not give rise to dangerous inflation. To this end, the open market operations and discount policies have been in part directed during the past eight years.

In recent years various measures have been proposed and attempted looking toward the economizing of gold, while, on the other hand, the return to the gold standard by a large part of the world has had the effect of increasing the demand for gold. A considerable number of the countries in returning to the gold basis have adopted the gold-exchange standard, which is now used in more countries than before the war; and in some of them, at least, it is not looked upon as a half-way measure. Its use is likely to be continued and extended. The use of this form of the gold standard decreases the demand for gold by making the currencies redeemable in drafts on foreign banks instead of in gold and by reducing or avoiding entirely the circulation of gold coin. Other economies in the use of gold have been made possible by the use of the gold bullion standard, as in England, under which notes are redeemable only in gold bars of high values. This, likewise, discourages the circulation of gold coin, although it makes gold available for export. The adoption of Anglo-Saxon methods of deposit banking, with increased use of checks, and the tendency of the world to increase the rate of turnover of money and of deposits, both make for a lessened demand for gold.

The immediate problem then becomes to a large extent one of so economizing the available supply of gold that there will always be an ample margin above the needs of business, and, by means of central banking policies, of so controlling the use of this gold, as a basis for notes and deposit currency, that neither inflation nor deflation can ensue.

An important contribution to the solution of this problem is to be found in the pioneer work which the Federal Reserve Banks have done in the direction of stabilizing the commodity price levels in this country and abroad. They have laid the basis for future action both as regards internal policies of central banks and co-operative action among the banks of different countries. With the world aroused to a need for the stabilization of the value of gold and with the beginnings already made, we may look forward with the hope of seeing an ultimate solution of the problem.

"Reprinted from the April, 1929, issue of the Journal of the Canadian Bankers' Association."

THE RUPEE NOT OVER-VALUED

BY

BENOY KUMAR SARKAR

of the Calcutta University

Hony. Professor of Economics and sometime Rector, College of Engineering and Technology, Jadavpur, Calcutta; *Gast-Professor an der Technischen Hochschule, Munich (1930-31); Membre correspondant de la Societe d' Economie politique de Paris;*
Director of Researches, Bengali Institute of Economics,
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The Rupee Not Over-valued.*

PROF. BENOY SARKAR'S VIEWS ON CURRENCY LEAGUE

Interviewed by a representative for an opinion on the recent activities of the Currency League and the devaluation propaganda Professor Benoy Sarkar said as follows:

"The Rupee is not over-valued in comparison with sterling. Devaluation is uncalled for. The eighteenpenny Rupee ought to continue".

FALL IN INDIAN PRICES NOT HEAVIER THAN IN BRITISH

Asked for the reasons for this view Prof. Sarkar observed: "The fall of agricultural prices in India since 1931 cannot be proven to be heavier than that in the United Kingdom. It is perhaps two or three points less. Besides, recent graphs of prices indicate that India's commodities have been tending to firm up. The recovery seems already to be on here and there although in slight proportions."

PRICE-LEVELS: "GENERAL" AND AGRICULTURAL

At this point Prof. Sarkar called special attention to the following points:

"In regard to comparison in price-levels between India and the U. K. it is to be remembered that the Indian "general index" is composed mainly of industrial commodities whereas the British mainly of industrial goods. Comparison in "general price-levels" furnishes no test therefore as to the comparative value of the Rupee *vis-à-vis* sterling. Indeed, scientifically speaking, comparability between the two is eminently questionable because of the fundamental diversity in the structure of the two indices.

AGRICULTURAL INDEX LOWER EVERYWHERE

Questioned as to the practical bearing of this situation Prof. Sarkar answered as follows:—

"In countries that are exclusively agricultural or where production and the market are weighted heavily with agricultural goods the price-

* Based on an interview published in the *Ananda Bazar Patrika* (Dec. 2, 1933), *Amrita Bazar Patrika*, *Forward*, *Bosumati*, *Hitabadi*, *Chios Street*, *Advances*, and leading Indian dailies through the news agency, *United Press*, Calcutta.

level has been much more depressed than in industrial countries or those with a greater weightage of manufactured goods. In certain economic regions the discrepancy in the two price-levels has to be measured by not less than 20 per cent during the period of the present depression. The ratio question need not therefore be automatically dragged in simply because a discrepancy of some 5 or 6 points may be detected in the British and the Indian price-levels".

DISCREPANCY: NOMINAL AND REAL

Asked for an opinion as to the real nature of the discrepancy, Professor Sarkar observed:

"While instituting price-comparisons between India and the U. K. one must not be misled into posing the Calcutta or the Bombay index against the British Board of Trade Index in its crude form. The investigation will have to be conducted intensively and ought to exhibit the agricultural indices of the two countries in relation to each other. It will be detected that although the fall in the general Board of Trade index is 5 or 6 points more favourable than in the Indian, that in the British agricultural index is perhaps 2 or 3 points less favourable. In other words, for an agricultural country like India the fall in prices happens to be not as heavy as it might otherwise be. In any case, the *real* (as contrasted with nominal) discrepancy in the Indian and British price-levels, should there be any, may turn out to be more in India's favour than in the U. K.'s. The Rupee is perhaps slightly undervalued rather than over-valued. Altogether, the case for devaluation can hardly be made out".

EXPORTS AND PRICES INDIFFERENT TO RATIO

On the general problem of raising prices Prof. Sarkar said :—

"It is not enough to speculate in season and out of season on the alleged stimulation of exports or raising of prices by currency depreciation. Statistical realities have also to be faced in the most objective and open-eyed manner. Factually, the exports from India increased even under a high Rupee (1s. 6d). The export-curves previous to 1929 were not influenced by exchange-curves in the manner as expected according to theory. And at the present moment it is worth while to observe, further, that price-curves in India are likewise indifferent to the course of currency. Prices rose in the past even with a relatively high Rupee as established in 1927. They may rise again, as indeed they have been tending to rise, under the same ratio. A change in the *status quo* of exchange is therefore unnecessary".

PROSPERITY ALREADY IN EVIDENCE

About the present export situation of India Professor Sarkar said: "The period of six months from April to September 1933 bespeaks a more prosperous half-year than the corresponding period of 1932. For instance, the exports of both raw cotton and raw jute have considerably improved and the price of cotton has been looking up. Prosperity is already in evidence, albeit no doubt only in traces."

WANTED CAPITAL IMPORTS

Asked as to the prospects of a more substantial rise in Indian prices Professor Sarkar replied as follows:—

"There is every likelihood of American, British and French capital being exported to agricultural countries and other normally capital-borrowing regions. As soon as these capital movements which have been very little in evidence since 1929 resume their usual course the agricultural produce and raw materials of debtor-countries like India may be expected to be placed finally on their pathway upward, as indeed they were previous to the world-depression in the epoch of more or less free capital movements".

BENEFICIAL TO AGRICULTURISTS

Prof. Sarkar was in favour of 1s. 6d. in the currency controversy of 1926-27. In 1931 he supported Rupee-Sterling linking. The Ottawa Agreement was likewise supported by him last year. All these measures have in his judgment been beneficial to Indian agriculturists and exports from India. On the question of the Reserve Bank his views are already well-known as being in general agreement with the provisions of the Bill.

Indian Currency and Reserve Bank Problems (1926-33)

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Insurance and Finance Review: "The publishers have to be congratulated on their bringing out this book at a very opportune moment, when the Reserve Bank Bill is already before the public and the currency controversy has raised its head over again. This monograph contains principally Prof. Sarkar's interpretations of these problems and the observations which he has made from time to time since the publication of the Hilton Young Commission's Report in 1926, and as such we find in the book a gradual development of the particular economic policy which Prof. Sarkar has been consistently advocating since that time upto the latest phases of our currency and banking problems.

"In this monograph will be found the germ of the formation of a new school of economic thought in Bengal that approaches the economic problems of the day from an objective point of view without yielding to popular confusions or dictates of interested partisans in a controversy. It was Professor Sarkar who first raised his voice against the Classical Economists, so to say, of India, for example, the Bombay millowners, and those that had heavy holdings in the Imperial Bank of India in regard to the above matters. It was Professor Sarkar who vehemently protested against the plea of Sir Purushottamdas Thakurdas for converting the Imperial Bank of India into the proposed Reserve Bank in the year 1926. His defence of the 1s. 6d. ratio for the rupee in 1926 against a powerful band of supporters of the 16d. ratio showed his conviction which he bears till today and which is inspiring Young Bengal to properly gauge the practical economic implications of the ratio problem at the present time.

"Practical economists and businessmen who have anything to do with the Reserve Bank, the rupee-ratio and other allied problems would do well to look through the pages of the monograph."

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American Economic Review: "Prof. Sarkar, a well-known Indian scholar, endeavours in his latest book to determine the proper economic policy for India. It would be a great mistake, he concludes, for his country to adopt the methods or machinery of contemporary Western Europe or the U.S., for they are in an advanced stage of industrial development, while India is only emerging from the handicraft stage. If western methods must be found they should be sought in the Balkans, in Spain or in other countries now entering upon modern industrialism. There is something reminiscent of List's stages of economic development in Prof. Sarkar's position. That the industrialization of India has not proceeded very far is shown by the essentially primitive conditions in native banking, railways and insurance. Although traces of rationalization, the outstanding feature of modern American industrialism, are to be found in the cotton mills, the iron, the hydro-electric and oil industries, this movement in India is still largely exotic.

"The author believes that fresh significance will be given to the study of economic organization and societal structure if the relationships between the regions of the "second" Industrial Revolution (England, France, Germany and the U.S.) and those now entering upon their first Industrial Revolution (India, China, the Balkans, South America etc) are fully understood. He concludes that the standards of living in Western Europe and the U.S.A. can be raised only to the extent of a simultaneous development in the industrially less developed countries."

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Our Unstable Standard of Value

By ROBERT H. TUCKER

Washington and Lee University

THE GREAT WAR, with its violent upheaval and magnified picture of economic forces and conditions, has taught us many valuable lessons. None of these lessons has been more clearly drawn, or inculcated with greater force of reality, than that of the evils and dangers inherent in our unstable standard of value.

The conditions in Europe, where through the process of currency inflation large sections of society, formerly prosperous, have been reduced to poverty and destitution, are well known. The conditions in America are still imperfectly understood. In a statement to the House Committee on Banking and Currency in 1926, concerning a bill for the stabilization of the price level in the United States, Dr. Willford I. King, distinguished statistician, and author of the outstanding work on the wealth

and income of the people of the United States, expressed himself as follows:

"While it must be granted that we have escaped such catastrophic effects as those prevailing in the countries first mentioned (Germany, Russia, Poland and Austria), we should remember that the failure of our government to stabilize the price level during the years 1914 to 1920 resulted in a wholly unjust transfer of wealth from holders of money and credits to debtors and speculators, amounting to not less than \$40,000,000,000 of present value. Beside robbery of this kind, the combined total of ordinary burglaries and speculations shrinks into insignificance. Had the officials of the Treasury Department and the Federal Reserve System been familiar with the economic principles involved, and had they been instructed, as this bill pro-

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poses to instruct them, to promote stability in the price level, it appears that this enormous injustice might for the most part have been prevented."

"Next to the economic havoc of war itself," says the Hon. D. J. Lewis, "there has been no more devastating agent at work than the rudderless and ballastless unit of value which has resulted in the price anarchy of the past generation."

Perhaps the clearest brief statement of the possible benefits of stabilization has been made by Carl Snyder, of the New York Federal Reserve Bank:

"With the general level of prices established on an even keel, the prices of individual commodities and wages and salaries and interest rates would fluctuate widely among themselves, just as they do now under the varying pressure of demand and supply, but in greatly lessened degree—we should no longer have an appalling and endless number of strikes and wage disputes and tie-ups and traffic blockades; for almost every strike and wage dispute grows out of the changing level of the purchasing power of money, and if the level can be made stable, a large part of our troubles, so called, will disappear. And with this would come a corresponding opening to all the talents of our inventors, discoverers and engineers, giving them a wide-open op-

portunity to get at ways to enhance the human product—to distribute the product more equally, to diversify and lighten human toil."

Similar expressions from leading economists, bankers and business men, emphasizing the need for stabilization, might be multiplied indefinitely.

Extreme fluctuations in the purchasing value of the dollar are not confined to recent times. They have occurred in every period of our history, their intensity increasing in the past three-quarters of a century. Minor fluctuations occur continuously.

Taking the period from 1860 to the present time, and regarding the year 1861 as the base, when the dollar was, so to speak, a 100 per cent dollar, we find by the end of 1865 the general price level had reached 250; hence the dollar was worth only 40 cents in 1861. Then the dollar began to appreciate in value until it reached 102 in 1879 and 150 in 1896, or almost four times as much as in 1865. Beginning with the year 1897 prices began to rise and the value of the dollar to fall, at a rate of approximately $2\frac{1}{2}$ per cent a year, until it again reached the level of 100 cents in 1913. Around this point it remained for two years, then dropped rapidly to 79 in 1916, to 52 in 1918, and to approximately 40 in May, 1920, the price index at that time

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being 247. The average rate of depreciation was $1\frac{1}{2}$ per cent a month, and in one year of this period the fall was approximately 25 per cent. Following 1920, there was deflation and a rise in the value of the dollar to 72 cents in 1913. Then its value dropped to 64 cents in 1923, around which point it has remained, with more or less variation, to the present time. Thus has the value of the American gold dollar, the most stable monetary unit in the world, fluctuated in the memory of many persons now living, quadrupling, shrinking by three-fourths, increasing again.

The causes of these extreme variations are inherent in the currency system itself. The standard, or measure of value in the United States, is, of course, the dollar; that is, 23.22 grains of pure gold or 25.8 grains of gold nine-tenths fine. Money in its broadest sense, however, comprises all the circulation media and the sum total of all the instruments of payment, including bank deposits subject to check.

Now gold and the currency based upon it have no qualities that place them above the laws of supply and demand and relieve them of the tendency toward changes in value. The situation is obscured by the position of money, or gold, as a measure of value. Under the money economy, as it is called, value and price are

relations between money and all other things that are measured by or purchased with money. Price is merely value expressed in terms of the money unit. A change in the value of an ordinary commodity reflects itself, other things remaining equal, in a change in the price of that commodity. A change in the value of money, however, reflects itself in a change in the price of all other commodities, that is, in the composite price of things in general, commonly called the general price level. When the value of money decreases, general prices rise. When the value of money increases, general prices decline. Value of money in the sense here used is but another name for purchasing power.

Prices of individual commodities rise or fall in response to the supply of and demand for them, irrespective of changes in the level of prices taken as a whole. The general price level moves primarily in response to changes in the value of money, which in turn is determined by the supply of money and money substitutes relative to the demands of trade.

Of the statement that the monetary factor is the controlling factor in general price movements there are numerous deductive and statistical proofs, but these need not concern us here. There are convincing general proofs. For example, it has been found that countries having the same

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monetary standards have like price movements. Their price levels, while not identical, rise and fall in almost absolute unison. On the other hand, countries having different monetary standards show sharp variations in their price levels. Not only this, but the degree of difference in their price movements corresponds closely to the difference in their standards.

The pages of our own financial history furnish verification in embarrassing abundance. In the periods from 1861 to 1865, 1865 to 1879, 1896 to 1913, and 1913 to 1921, price levels can be connected very closely with the changes in the volume of money. During the World War there was almost an exact correspondence between the rise in the price level and the increase in the circulating medium, both in the United States and in other countries.

Two important exceptions must be noted, but these may be said to confirm, rather than invalidate, the rule. In the period from 1879 to 1896, prices declined, although the volume of money almost doubled. However, the demand for gold and money was exceptional, owing to the rapid increase in population, the phenomenal expansion of industry, resulting in cheapened production, and the establishment of the gold standard in several European countries. There was also a slight falling off in the annual production of gold. In the period of

depression and falling prices in 1920-1921 there was likewise an increase in the quantity of money, but this increase was largely in gold, which was held idle and not permitted to exert its usual influence. Besides, in time of business depression the psychological factors outweigh all others.

The chief cause of variations in the general price level lies in the dollar itself. There are other causes, of course, but here lies the overmastering cause.

The evils wrought by our unstable standard of value are not unlike the evils that would arise from any other variable standard—a variable yard, a variable pound, or a variable bushel. Only they are vastly greater; for the dollar is the common yardstick of commerce and enters into every market and substantially every business transaction. There is little trouble so long as the price level, or the purchasing value of the dollar, remains relatively steady. It is the process of change that creates the vast social consequences that ensue.

The organization of modern economic society, with its large-scale, long-time production and selling, and its vast network of credits, is such as to render these consequences more serious than at any previous time in history. Present-day society may be divided roughly into the creditor class, the business class, and the wage-earning class. The classes over-

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lap, of course, but they represent fairly distinct social cleavage and actual divergence of interest. The incidence of changes in the general price level is different on the different classes, altering the distribution of wealth as between the classes and overstimulating or retarding production.

In a period of rising prices the business class—the farmer, the merchant, the manufacturer, the bull speculator—stands to gain. Prices are rising more rapidly than costs; inventories are increasing in value; borrowed “capital” is repaid in depreciated dollars. It is this fact that causes a period of rising prices to be identified with prosperity and makes it difficult to check inflation when it has once set in.

On the other hand, in a period of rising prices, members of the creditor class—bank depositors, bond-holders, mortgagees, holders of life insurance policies, pensioners, lessors, endowed institutions and foundations—stand to lose. What the creditor gives up is dollars, purchasing power. What he receives back is dollars of reduced purchasing power. His loss is gained by the debtor, whether the latter be business man, or stockholder, insurance company, or purchaser of property on long-time credit.

Likewise receivers of wages and salaries stand to lose. True, wages and salaries follow the general price

level; but always at a lagging pace. As late as 1918, for example, real wages in the United States were, on the average, only 80 per cent of what they were in 1907.

In a period of falling prices, the conditions are, in the main, reversed. The creditor class gains, lending cheaper dollars and receiving back dollars that have become dearer. On the other hand, the business class stands to lose. Prices fall more rapidly than cost, risks are increased, production is retarded. The only protection lies in curtailing operations or reducing costs. This means discharging employees or shortening working hours or reducing pay. The wage-earning class seems to experience some advantage, since wages usually decline less rapidly than prices, but this is offset in large measure by losses through unemployment or reduction in pay or working hours.

These principles were well illustrated in the periods 1879-1896 and 1896-1920, though in the former period the wage-earner did not, for reasons already noted, suffer the full effects of declining prices until after 1890. A person or corporation, however, borrowing \$100,000 in 1885, payable in 1896, paid back approximately \$150,000 in purchasing value. On the other hand, a person who made a loan of \$100,000 in 1896, or what is the same thing, bought at par corporation bonds to this amount

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maturing in 1920, received back only about \$27,000 in purchasing value, meanwhile sustaining additional losses through decreased purchasing power of the income from the bonds.

It is estimated that this kind of subtle pocket-picking has resulted in the harmful and unnecessary transfer of more than \$100,000,000,000 of wealth in the past thirty years. The injustice is none the less because the process is obscure.

The fault is in the system. Every one today is forced to play the game. The unstable dollar makes every contract a lottery and every contracting party "a gambler in gold without his consent." Not only this, but it carries in its train crises and depressions that stifle production, paralyze effort, and in the end visit hardship upon every class of society. Society stands to lose, either way. Inflation overstimulates; deflation pauperizes.

The broader social consequences are still more serious. Strikes, green-back movements, free silver campaigns, the trick-bags of the demagogue and the "reformer" follow in the wake of a rise in the purchasing power of money, that is, a fall of the general price level. In the opposite process, the savings of a lifetime are swept away and thrift and "gilt-edged" investments become mockery.

The remedy for this state of affairs is to be found only in stabilizing the

unit of value. Inflation is no remedy for deflation. Still less is deflation a remedy for inflation. The need is for a permanent, scientific, assured standard—to stabilize the dollar just as we have already stabilized the yard, the pound, the bushel and all other units of commerce.

The evils of unstable currency have been known for many centuries. Indeed contracts in terms of commodities have been made since early times, and there are numerous instances in American colonial history of the use of this "tabular standard" of deferred payments, based upon crude indexes of commodity prices. Since the World War a number of business firms in the United States have established tabular standards of payment in wage contracts.

Anticipations of the present proposals to stabilize the unit of value are found in economic literature throughout the 19th century, especially in the writings of Richard Tooke in 1824, Simon Newcomb in 1879, and Alfred Marshall in 1887. Concrete plans for stabilization were presented by Aneurin Williams in England, and J. Allen Smith and D. J. Tinnes in the United States in the last decade of the 19th century. Outside the small circle of professional economists, however, the subject attracted little attention until the violent price upheaval of the World War period. Since that time widespread

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interest has been aroused, and numerous plans for stabilization have been proposed.

Of the plans proposed for stabilization, only four would seem to be at all feasible under the existing conditions:

One of these is the plan urged by the late Professor Robert A. Lehfeldt of the University of Johannesburg, South Africa. Professor Lehfeldt proposed to regulate the output, and hence the value, of gold through control of gold mining and production by an international commission. This plan is sound economically, but whether it is politically practical, and whether it would prevent inflation and deflation in the individual countries, is open to some doubt. World prices as a whole could no doubt be stabilized against the major swings in this manner.

Another plan is proposed by Carl Snyder, economist of the Federal Reserve Bank of New York. Snyder proposes to regulate the volume of currency in accordance with price index numbers. Under this plan the government would take complete charge of exports and imports of gold for the purpose of maintaining an adequate redemption fund. On the basis of this gold reserve, federal reserve notes would be issued, redeemable in gold, full legal tender, and serving as the sole money for bank reserves. Also the Federal reserve

system would be required to raise or lower the discount rate or to increase or lower its security holdings with each 3% change in the general price level. The plan is said to be a compromise between the quantity and the credit theories of money. Its author maintains that it will work automatically, "free from the interaction of any kind of influence, political, financial, or otherwise."

The plan most likely of early adoption is that contained in a bill introduced in Congress in 1926 by Representative Strong, of Kansas. Specifically this bill would amend the Federal Reserve Act so as to lay down the rule as a guide to Federal Reserve policy, that "all the powers of the Federal Reserve System shall be used for promoting stability in the purchasing power of the dollar."

This proposal is not new. It involves only a restoration of the direction to stabilize the price level contained in the original Federal Reserve Act as passed by the Senate, but eliminated while the bill was pending in the House. Moreover, according to many banking and currency experts, the proposed bill confers no new power on the Federal reserve system. It is the opinion of many observers that Federal Reserve powers have been used to influence the price level. They cite the action of the Board in furthering, albeit unintentionally at the time, the inflation of

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1919-1920 and in applying the brakes too vigorously in 1920-1921; in checking the incipient boom in 1923; and, aided by the temper of the present business community, in keeping the price level on a fairly even keel since 1923.

The Federal Reserve System could not completely solve the problem, but it can and does, through control of the volume of credit and currency in use exercise a powerful influence on the price level. This it can do in four ways:

(1) By raising or lowering the discount rate, thus influencing the demand for deposit currency and hence lowering or increasing its amount.

(2) By its open market transactions in government securities, trade acceptances and bills of exchange—in the case of purchase, paying out checks or notes, thus enabling banks to build up reserves and expand their lending power; in the case of sale, receiving drafts in payment, thus reducing member bank reserves and curtailing their lending power. It has been estimated that each dollar of reserve normally means a lending power of from \$8 to \$15 for the system and its member banks as a whole.

(3) By impounding or neutralizing the effect of an oversupply of gold, as has been done since 1920.

(4) By advice to an moral suasion over member banks as to their policies in respect to contracting or ex-

panding loans and limiting credit.

This plan has, of course, some decided limitations. Raising the discount rate is more effective in time of boom than lowering the rate can be in time of depression. The psychological elements of the latter are not so easily overcome. The open market transactions are also effective, but only so far as the banks have got the securities to sell. Purchasing securities in time of depression presents fewer difficulties. Two possible future contingencies are not met by the bill, viz: If the supply of gold fell until it barely equaled the amount needed for reserves, the Federal Reserve System could not prevent a fall in the price level by reducing the discount rate or by purchasing securities in the open market, since this would lead to an extension of credits in the form of rediscounts and the necessary reserve would be lacking for this purpose; on the other hand, should the time come when there was too much gold on hand, then it would be difficult to hold the member banks in check and prevent the price level from getting beyond control.

In order to meet these problems, the Strong bill provides a comprehensive study scheme and for increased publicity which would promote the education of public opinion.

The plan has distinct possibilities, especially since gold today is a much less weighty factor in banking opera-

tions than it has been in the past. Credit has now the more effective influence. Reserves are no longer gold predominantly, but credit reserves backed by gold or lawful money. In other words, we have passed in recent years from the older free gold system to the gold controlled system, that is, to a system of managed currency. This is not to be deprecated, but is rather a mark of progress and of our increasing knowledge of currency and banking.

The most comprehensive and thoroughgoing plan of stabilization is that proposed by Professor Irving Fisher and outlined in detail in his book, "Stabilizing the Dollar." This plan would have the gold content of the dollar changed from time to time, so that it will always represent the same purchasing power over goods in general. Gold coins would be replaced by "gold bullion-dollars" of such weight as may be declared to constitute a dollar. These would be represented in the monetary circulation by "gold bullion dollar certificates". Free coinage, or to be more exact, unrestricted deposit, of gold would be continued, also unrestricted redemption of the gold bullion.

This variation in the weight of gold in the bullion dollar would set in motion forces that would tend to bring about the desired effect on the volume of currency. An increase would require more gold of persons

desiring gold certificates, thus tending to check the circulation of these certificates, to reduce bank reserves and bank loans, and to decrease the volume of currency. A decrease in the weight of the bullion dollar would have the opposite effect. The length of time for these effects to work themselves out is a debatable question. Investigations made in this country and in England tend to show a lag of from six weeks to three months or longer between changes in the volume of money and changes in the general price level. The process could be hastened by the cooperation of central banks or the government itself through the usual open market transactions.

A great deal has been made of the claim that the stabilized dollar, whatever the plan, would not withstand the shock of war. This may or may not be true of the stabilized dollar, but it is certainly true of the present standard. Every great nation, neutrals as well as belligerents, gave up the theoretical gold standard under pressure of the Great War.

Many of the criticisms of the whole stabilization idea impress me as being based upon two general assumptions, both of which are fallacious. One of these is the assumption that the present system is perfect. The other is that the old fluctuations will continue in spite of the establishment of any new plan. One critic,

for example, selects some of the extremes in recent financial history and asks triumphantly, "what would happen to the proposed system under these conditions?" The prevention of conditions of this kind is precisely the end and purpose of stabilization.

The proposal of a stabilized dollar lays no claim to theoretical perfection. It is not a panacea, or a substitute for economy or for efficient management. It is not a guarantee of a perfect system of distribution. But, as has been pointed out, it would reveal the facts, instead of obscuring them, as the present unstable dollar obscures them, and directly or indirectly accomplish more than any other reform proposed in the world today.

The strongest obstacles to the adoption of stabilization are political, rather than economic. The scheme is not readily understood. Moreover, the heritage of the "free silver" and "greenback" struggles of a past generation is still upon us. In some quarters the present gold standard is still sacro-sanct, in the belief that it is automatic and any proposal to modify or change it is met with suspicion and distrust. Yet the fact remains that the old unmanaged gold standard is a thing of the past, the only question is as to how it should be managed.

A question may naturally be raised as to why so simple and effectual a

remedy was not applied long ago. The answer is found in three facts: failure of the public to understand the problem; lack of the indispensable instrument, wherewith to measure the fluctuations, the index number; and the absence, until very recent times, of the impelling necessity, the large mass of time contracts depending upon a reliable standard of deferred payments.

The existing situation may be summarized briefly as follows:

1. It is said that under stabilization individual commodities will fluctuate among themselves, substantially as they do now; that the picture, the drawing, will be the same, only on a different scale. In so complex a situation, involving thousands of commodities with varying conditions of production and varying degrees of intensity of demand, one cannot be sure. On the other hand, one may be sure that it would be difficult to aggravate the evils as they already exist. We have had since 1923 the most stable price level in recent history, perhaps in all history for so long a period of time. There has been no lack of prosperity, and individual prices, excepting those of agricultural products, have seemed to move in their accustomed way.

2. The adoption of the full plan must await the construction of index numbers that shall be so clear and accurate and fair as to win universal

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confidence. There is still sharp disagreement as to the most satisfactory types of index numbers.

3. Likewise the adoption of the full plan must wait on the development of an informed public opinion willing to accept and abide by the findings of scientific investigation.

4. The operation of the plan would be simplified by its acceptance internationally, certainly by its adoption simultaneously by two powerful nations like England and the United States.

5. Stabilization of the dollar should be accompanied by reasonable control of credit. Indeed the first step should be, and probably will be, to instruct the Federal reserve system to carry out the principles of credit stabilization as outlined in the pending bill of Representative Strong. Perhaps this is as far as we shall be able to go at the present time. At least this much, however, should be done at once. Under the existing conditions, the choice is between control and chaos.

6. Ultimately the world must and will have a stable unit of value—when, no one can predict. Society is slow-moving and prone to forget. Perhaps it will require another and greater catastrophe than that of 1914-1920 to bring the desired result. The struggle for "sound money," so-called, in the United States covered approximately a hundred years. The struggle for stable money has only just begun.

The dollar should, at the earliest moment practicable, be stabilized, that is, changed from a unit of weight to a unit of value. Until this is done, we shall simply continue the age-old gamble—the gamble with the luck of gold discoveries, with the skill and ingenuity of metallurgists, with changes in banking systems and in policies of government finance.

The whole history of industrial civilization has been bound up in the struggle to overcome uncertainties, through science, through insurance, through specilization and standardization.

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Stable Money Essential to Prosperity

An Interview with NORMAN LOMBARD

Stable Money Essential to Prosperity

Firm Price Level Prerequisite to Progress Among Financial Institutions

IN an interview recently to the SAVINGS BANK JOURNAL, Norman Lombard, Executive Director of the Stable Money Association, stated that he believed a non-shifting price level was essential to permanent prosperity among all financial institutions engaged in collecting savings. "The ideal situation," said Mr. Lombard, "from the point of view of the bank manager and the depositor, is to keep money stable in its purchasing power. A shift of the price level in either direction causes loss of confidence and hardship among small wage earners, from which class is derived the bulk of our savings bank deposits.

"For a number of years our savings institutions labored under conditions which, in general, were not conducive to saving. After a long period of falling prices, which culminated in 1896, there came a turn and a period of rising prices, a situation which was naturally aggravated by the war time inflation induced by government credit operations and the import of gold. During the period from 1896 to 1920 the commodity index rose 239.13 per cent."

The graph below fully illustrates the point Mr. Lombard makes in this connection.

"What was the result? If a depositor placed a sum of money in a bank in 1896 and left it at three per cent. interest until 1920, the principal and interest together would have been worth less in purchasing power than the original deposit," he said. "This condition acted as a deterrent to savings derivsits. Money, instead of finding its way into savings institutions, was spent or invested in stocks whose tendency was to follow the general upward trend."

As is shown in the graph, the peak of our commodity index was reached in 1920. In that year surplus gold which had served as a base for the

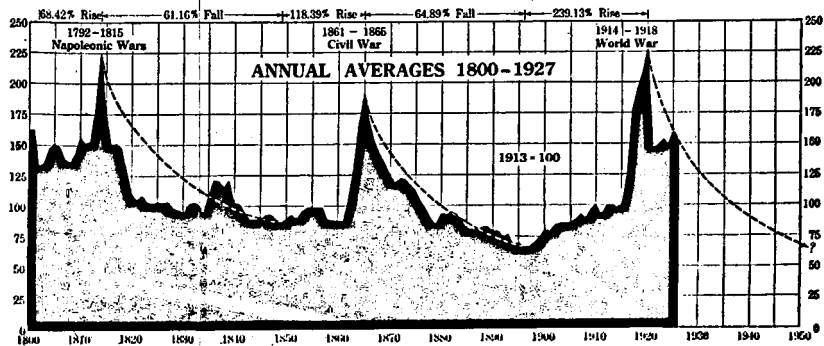
expansion of our credit activities, began to leave the country in a normal readjustment among nations, and fear of credit deflation led to lack of confidence. The Federal Reserve Board, meeting in May of that year, concluded that the tendency towards rising prices must be checked, and accordingly raised the re-discount rate to eight per cent. Borrowing, of course, was curtailed, prices fell, production decreased, and serious unemployment resulted. The steady, upward trend of savings was correspondingly retarded as the laboring class was forced to draw upon its reserve.

"That a fluctuation of the commodity price level in either direction affects savings deposits adversely is clearly recognized," said Mr. Lombard. "In a period of rising prices, the possessor of a fixed return is at a disadvantage; savings banks find difficulty in raising their rates to keep pace with the trend, because the vast bulk of their funds is invested in mortgages or bonds bearing fixed interest over a period of years. On the other hand, unemployment, resulting from deflation, draws heavily upon savings."

Causes of Fluctuation

In seeking a remedy, we must ask ourselves what are the fundamental forces behind these fluctuations? "They are due," says Mr. Lombard, "to the failure of the monetary circulation to keep step with the needs of business. If business increases, the monetary circulation should increase correspondingly. If it does not, the price level will fall. If business decreases, the monetary circulation should also decrease. If it does not, the price level will rise."

Obviously, the way to develop the full possibilities of our savings system is to eliminate the uncertainties of price fluctuation, and monetary au-



The chart above shows the way the general level of commodity prices at wholesale has fluctuated in times past according to the annual averages of the index of prices of the United States Bureau of Labor Statistics and the way the level of such prices will fall in the future if history is allowed to repeat itself.

authorities must so understand and stabilize our monetary system that the dollar will be brought under control and a constant value maintained at all times.

The question naturally arises: at what level shall money be stabilized? As yet there is no common agreement and economists are busily engaged in studying the question. Also, there is no agreement on the ideal index number. Some authorities are in favor of one based on wholesale prices, properly weighted. Others maintain that wholesale prices have little or no effect upon the consumer, and uphold the retail price as the proper basis of calculation. But whatever the final decision, the price level must be kept stable.

We have the machinery to accomplish this in the Treasury Department and the Federal Reserve System. If prices begin to rise, it is a sign that somewhere in our monetary system there is a maladjustment; something is out of gear. The fault may be in a surplus of gold; credit inflation or a too rapid turnover of currency may be the cause. In each case, however, inflation may be caught at the start. The Treasury Department may buy up gold; it may issue Treasury certificates with 100 per cent. gold backing in lieu of Federal Reserve notes which are backed by only 40 per cent. of gold. Similarly the Federal Reserve System may halt credit inflation through selling securities or by raising the re-discount rate, thereby checking the tendency to borrow. On the other hand, a tendency towards falling prices may be checked by releasing gold, and loosening up on the credit system through buying securities or lowering the re-discount rate. Usually, any action found necessary to maintain the index level would be slight. Its effect would be merely to keep the system in equilibrium, and this would have a beneficial effect upon savings, either those invested in securities or those on deposit in banks. Several other plans for commodity price level stabilization also have received wide prominence in recent years.

Effect on Savings

"When this condition of price stability is reached, whatever the means adopted," said Mr. Lombard, "what will be the effect on savings? In the first place, business will be placed upon a sounder basis. Operators will be assured of a steady, normal growth, based upon business ability rather than speculation. Uncertainty as to the future will be lessened, and the spectre of sudden business depression, with the accompanying unemployment, so disastrous for savings accounts, will be practically eliminated. Recent studies by the International Labor Office have shown that there is a definite and close relation between unemployment and savings. Whenever public opinion demands that this policy States but throughout the world.

"One paragraph from the report of these studies reads: 'In other words, anarchy must not be allowed to prevail with respect to money and credit. By the influence that the central banks of issue should be able to exercise on the credit market; by the supervision which the States themselves should exercise over the banks of issue while refraining from abusing their powers in order to sustain an unbalanced budget; finally, by an international agreement between the banks of issue, the circulation of money and of all other credit instruments which are substitutes for money should be governed in such a way as to keep step with the changes in production and trade. Although the evil of unemployment will not have disappeared entirely on the day this end is achieved, at least it will be largely reduced, for one of its most important causes will have been eliminated.'

Through stabilization another great handicap savings accounts will be brought under control. The greatest promoter of speculation is instability in the dollar. If we can evolve a constant price system, speculation in the market caused by fluctuation in the commodity price level will be practically eliminated, and savings, instead of being withdrawn to plunge, as in recent months, be left on deposit.

What will be the future of the savings accounts under such conditions as have been described? There will be no steadily rising price level to discourage purchasers of a fixed return. As the stock market adjusts itself and speculative profits are decreased, money held by operators in checking accounts will be withdrawn for investment, and a considerable portion will find its way back into the savings account whence it originally came.

In concluding his remarks, Mr. Lombard said, "Under stabilization, wealth will increase more steadily than under a condition of instability, and will be transmuted into savings accounts in large measure. As the United States is now a creditor nation, the result will be a large fund seeking conservative investment. As this type of investor is not venturesome, domestic investments will be preferred. The inevitable result will be lower rates of interest on such investments and, hence, lower rates of interest will be paid to savings depositors.

"The logical inference from this line of reasoning is that both savings banks and savings depositors will be benefited by a condition characterized by stability in the price level (or in the purchasing power of the dollar). The only people who profit from instability are speculators.

"Stability can be brought about by the proper application of well-understood economic principles whenever public opinion demands that this policy followed."