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**PAPERS ON CURRENCY AND  
THE RESERVE BANK FOR INDIA**

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AND THE  
RESERVE BANK FOR INDIA

BY

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**NOTE**

The substance of the following pages originally appeared in various daily papers, as and when they were written, dealing with the different stages of the discussion of the Reserve Bank Bill. They are now brought together and re-printed in order to preserve on record the views which unfortunately have failed to appeal to those who have in them the power to confer upon the people of India the inestimable benefits of a national currency in the shape of the "honest rupee" and who have refused to do so. A Reserve Bank for India, operating with open mints for the free coinage of silver, would have been too manifestly a just and reasonable gift for the Government to make on the eve of the new reforms; but a blundering bureaucracy will never do the right thing in the right time. I do not know if the blame attaches to the Government so much as to our legislative mentors who for various reasons voted for the passing of the Bill. When the Bill was introduced in the Assembly it was announced that the European members proposed to requisition the services of Sir George Schuster to explain to them the scope of the Bill and it was also announced that the Indian members telegraphed over to an Indian publicist in Calcutta for a similar purpose. It is, of course, better late than never; and if our representatives had continued their studies in the right spirit they need not have blundered into the situation in which they have thrust the country. They at least had not the excuse which the "expert" advisers taken to serve on

the Committee in London had : there was no call of the claim of gratitude of the invited guest. It is a pity the members have failed for all the tutorings of improvised advisers to see far and see deeply into the monetary troubles of India and apply the proper remedy.

So far as the Legislative members are concerned they may have their reward. They may find themselves thrust into the All-India or Local Boards with the prospect of a "Deputy Governorship" dangling before them. But as for the people whose trust they have betrayed, their woes have only half begun. They have been during the last few years denuded of the spare gold they had reserved for lean years ; and it may be expected that within the next six months their resources will have been practically exhausted. And what are they to fall back upon ? Not surely upon their silver reserves. The silver which they purchased at varying rates, at 40d. and 50d. and even 72d. an ounce now sells at 20d. an ounce. The holders of silver are practically ruined and their hoards have become of absolutely no value. And yet the Rupee is our legal standard and measure of value. The continued fall in the price of silver has been forced to a no small extent by the attitude of the Indian Government, who will not have it even as a part of the reserve in the Reserve Bank. They will only have a maximum of fifty crores to begin with ; and if that limit is exceeded in any year, the Bank may deliver to the Governor General in Council rupee coin up to the extent of such excess against legal tender value in the form of bank notes, gold or securities. The securities may be of any country only

related to paper-sterling in some manner; they may not have even a metallic backing. This contempt for silver can only be understood as evidencing a contempt for the welfare of the millions who have used it as a legal standard metal, a convenient medium of exchange and a reliable measure of value.

It is estimated that the stock of silver in this country is at least 3,000 million ounces hoarded in the form of vessels, ornaments etc. If the mints were opened to the free coinage of silver, there will be an immediate rise in the price of silver and the (liquid capital of the country will have increased at least by a thousand crores.) (Fancy an addition of one thousand crores to a poor people grovelling in poverty and sinking in distress.) Any statesman who has the gift of imagination will rush forward to embrace an opportunity of that kind; but in this prosaic age, where men are governed by dull routine, there is no place for high-minded statesmanship. Neither Sir Samuel Hoare nor Sir George Schuster can rise to that eminence from which they can survey the prospect of a happy and prosperous people supplied adequately with currency, of which they are starved at present, by a mutilated policy of linking the silver-rupee to paper-sterling: they can only look on with grim humour the irony of the millions starving and struggling because the economic Pandits had declared that the difficulties of varying exchange cannot be avoided with open mints. Sir George Schuster has clearly avoided the discussion of open mints, pretending ignorance of any demand for it; nor could the members of the Legislative Assembly provoke him to a discus-

sion as they had begun their study of the rudiments of currency only after the publication of the Reserve Bank Bill. Sir Samuel Hoare, if he was in a mood to study the Conservative view on currency questions, might have looked up to the published views of J. A. Balfour, Sir Michael Hicks Beach, Sir Henry Chaplin and a host of others who, in season and out of season, advocated the cause of international bi-metallism and of free silver for India from the floor of the House of Commons. But the Conservative of to-day is not the lineal descendant of the Conservative of the Balfour or Salisbury variety: he is yet to feel his feet on monetary questions.

If the cause of free silver had been forlorn I would not have ventured to re-issue these papers or commend them for the consideration of the public. It were mere labour lost. But I am told that there is really in India a large volume of opinion, as yet unorganised and silent, not only among Indians but among European residents in favour of it. After an extensive tour in some of the principal towns in India, on behalf of the Currency League, Sir Montague Webb recently told a meeting in Bombay that it was an encouraging revelation to him that there was quite a large number of responsible people, Europeans and Indians, who believed in de-rating the rupee and re-opening mints. This feeling appeared to him to be strong especially in Calcutta, the city of Acharya Sir Profulla Chandra Ray! (If our redemption is ever to come, it can only be from the independent group of Anglo-Indian merchants, but not from the patriotic group of political orators who have never cared to think out these problems seriously.) And



there is a further reason why they should place themselves in the van of the reform. They were responsible for the original sin of closing the mints, and it is they that must now remove the obstruction to trade and commercial prosperity. They thought once that stability of exchange was necessary in the interest of international commerce; and when trade has ceased to be, they have veered round to the view that the evils of a varying exchange are better than no trade at all. It remains for people who hold that the time is long come when definite steps are taken to force the Government to de-rate the rupee and re-open the mints, to join their forces and make an organised effort to secure that object. To that end, I trust, the re-publication of these papers will contribute in some measure. I therefore humbly and respectfully dedicate the following pages to "responsible opinion" which must organise itself sooner or later—the sooner the better—in favour of open mints and free silver.

Teppakulam P. O.  
TRICHINOPOLY }  
28th Feb. 1934 }

S. K. SARMA

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# PAPERS ON CURRENCY

## THE RESERVE BANK SCHEME

If expediency is a final word in politics—and I do not propose to underrate its value in a nation fondly struggling to be free—the revival of the proposal to constitute a Reserve Bank for India, which will in the main carry out the functions of a Central Bank, must be welcomed if not enthused over. Sir Samuel Hoare has laid down the dictum that a Reserve Bank must be constituted to regulate the control of the credit and currency policy of this country before any advance can be thought of in constitutional experiments ; and an eager body of political workers has disclosed their willingness to receive both the political and banking gifts with reverent hands. One may wonder if a special committee of experts from among those whom chance has thrown into the Assembly was necessary to draft a report, the text of which has been recently published ; and the report is only a rehash of Sir Basil Blackett's Bill of 1928, with timely modifications, which is also appended to it. The mere threat of Sir Samuel Hoare to suspend all possible reforms would have secured an easy passage to any bill modelled on Sir Basil Blackett's secondary proposals—his original proposals as modified by the Select Committee of the Indian Legislatures were subsequently withdrawn—but when they have been endorsed over by some of the very men who may be vociferous in its consideration, it was statesmanship to have

secured their co-operation, which he has successfully done. The inevitability of the Reserve Bank being granted, it only remains for people, who have not that rosy faith in the wisdom of the bankers to control the credit and currency policy of this vast country, to appreciate the possible usefulness of the institution and the magnitude of the risks we run by its constitution.

In the west a school has recently risen which has adherents from among the best intellectuals of the age to socialise the banks and make them national institutions and not mere private concerns to subserve the purpose of the plutocracy as they now are. It is their view that the credit and currency policy of each country must be managed in the best interests of that country : and that we should become nationalists before we become internationalists is the confident advice given to bankers dealing in high finance. Even the Bank of England with its hoary traditions and venerable associations is not spared from their attack and very justifiably too. It was on the advice of the Bank of England that Mr. Churchill was induced to go back to the gold standard and it was on the advice of the self-same body that England went in five years off it. The wisdom of Lombard Street has never been so fruitless of results as during the last five years of managed currency—managed in the main by Government on the best banking advice available to them. I remember Sir Montague Norman, the Governor of the Bank of England, telling the Hilton Young Commission that he was not only in favour of an effective gold standard but that he was

working for it. But where is the gold standard in Europe or anywhere else and where is its effective working? Only recently a couple of thousand representative economists and bankers met in London to solve a very simple problem and they met—and dispersed without breaking heads, for there are really not many heads to break among modern financiers. And we in India are called upon to hand over the entire machinery for credit and currency expansion to the custody of one or two representative bankers with about a dozen advisers forming a committee. They will “manage” the business as they have managed it till now—with the world chaos that we are now experiencing, recovery from which seems to be as remote as ever.

If intellectual socialism is insistent on the socialisation of not only the Bank of England, but all the Joint-Stock Banks including the “Big Five”, the handing over to a private concern such as the Reserve Bank, the entire capital of which is to be subscribed by the public, and whose policy will theoretically at least be guided by aristocratic shareholders, where it is not pulled by a powerful Governor or Deputy Governor seems, like Alice in the Wonderland, topsy-turvy. A State Bank, taking over the entire management from the over-worked ranks of the Civil Service in the Finance Department, with a Court of Directors directly appointed for a term by the Governor-General-in-Council, with the capital subscribed for, if necessary, by the Government as proposed by the Joint Select Committee on Sir Basil Blackett’s Bill of 1927 will place the working of the Bank under the direct scrutiny and supervision in matters of policy in

the legislature which is representative of the people of the country. Such a Bank might pursue a policy and adopt a line of action which might subserve national as opposed to international or sectional interests. (But how the proposed Reserve Bank can subserve the interests of anybody else than those of the shareholders clamant for their profits or trade advantages, the man in the street fails to see.) The exploitation of the poor by the trading interests may be aggravated in a manner till now not experienced in this country. It will be a roseate view to take of it if it did anything else than give a fillip to the development of overseas trade at the expense of internal or inter-provincial trade by seasonal expansion of commercial credit; it can do hardly anything for providing the country with the necessary financial credits on which alone the fabric of an industrial future can be built.

For, what after all is the function of a Reserve Bank? Internally its function is to help trade by commercial credits and that is done by re-discounting commercial bills bearing endorsement of one at least of its member banks. The re-discounting system enables the Central Bank to expand the currency for a short term; it avoids the inflation of currency as the bills liquidate the debt at the time of maturity. The Indian demand for additional currency is seasonal, when money is required to move up-country when the crops for exports are ready like jute in Bengal and cotton in Central India. Agricultural credits may require longer time for bills to mature. It is anticipated that a bill-market will be created shortly after the constitution of the Reserve

Bank ; it might be and there may be bills awaiting to be re-discounted. To what extent currency may be expanded may not easily be predicted. It is possible that there may be a seasonal expansion of between twenty to thirty crores if trade had recovered. (Except in the few months when the export trade is busy, it is notorious that Bank deposits have been normally very heavy and the Bank-rate has fallen very low. Money may be available at three per cent for months and nobody may want it. I am speaking of normal times, and (in a purely agricultural country when the demand for additional money is of a short duration, it is questionable whether the need for re-discounting eligible paper can be fairly pressing or continuous.) All the same, the commercial magnates who are making their fortunes by foreign trade with no substantial capital of their own, may find the re-discounting system very helpful to them. They can freely purchase exportable commodities without trouble, and thereby stimulate our trade overseas.

Externally the object of the Reserve Bank is to keep such a reserve in foreign currency abroad as may enable us to meet any call. And as London is still the clearing-house of the world, we have to keep in sterling sufficient funds to meet external demands on us. In normal circumstances there will not be need for keeping any big balance in sterling in London either. We are in the peculiar position of having to export more goods than import them. As a debtor nation we have to export goods at least to the extent of forty crores every year in addition to what we import. That is in Government account alone. Besides that we have to pay the

profits of merchants, bankers and a host of non-official workers carrying on the whiteman's burden in India. Then there are the interests and profits of private investments. All these debts can be discharged by us only by our surplus exports. And as we have not a monopoly in all of them, we have to thrust them on unwilling purchasers for a cheaper price. The difficulty of keeping up a continuous stream of outgoing commodities, always acute and never agreeable, has been now and then met by borrowing which can only aggravate the situation after a time. Till then at all events the Central Bank's external function cannot be exacting. If we cannot pay in commodities, we can at least pay in gold and that is what we have been doing these few years. We have drained ourselves of over a hundred and fifty crores of gold and may do yet more with the ultimate object of re-starting Europe on a Gold Standard, ourselves following her blind example. (The function of the Reserve Bank meanwhile will be to help in the compulsory exportation of goods to Europe) at a price which Europe will be prepared to pay despite high tariffs. Sir Samuel Hoare is too shrewd a politician to ignore the possibility of even an Indian Finance Minister one day resolving upon a monetary policy which may be more national and less international, less inclined to be tied to the chariot wheels of a dead gold standard and more inclined to give his people sufficiency of currency and credit duly pyramided upon it. (And the Reserve Bank will be a standing buttress against such a contingency) (Its sole purpose will be to keep up the solvency of our position as a debtor nation by facilitating a regular, sustained



and never-failing supply of goods to Europe at a price which Europe can pay.) (Frankly, I confess its object will be to contract currency and keep down prices in India at a level at which it may be profitable to export goods to Europe.) The Reserve Bank will "manage" our currency with a vengeance !

I do not want to be unduly pessimistic about an institution which is yet to be and for aught one knows may shortly be ; and which has even before its birth obtained the baptismal honours of a pretty good number of legislative experts. But Sir Samuel Hoare has declared that one of the conditions precedent for the grant of Federal self-government is substantial guarantee for excess exports. (What can not be given must be taken ; and the Reserve Bank is only an instrument for the proper and effective guarantee of enforced sales of Indian goods in European markets, whether they be merchandise or gold.) And now let us remember the nature and extent of the sacrifice we shall be making for that end. We shall have placed with the Reserve Bank the entire currency resources of the land. (We shall have given it the right to issue notes under conditions of course which shall be regularised by an act of the legislature. | We shall have placed with it the use of the revenues of the land, imperial and provincial, including the receipts from such commercial activities of the State as the Railways. | We shall have clothed the Bank with the authority of a Government institution, thereby attracting to it all the liquid capital of the land. | To start with, it will handle every year about five hundred crores which it will employ in keeping prices down to a

level at which overseas trade may be more profitable than internal trade. The actual means by which such a sinister result can be achieved is deserving of more detailed consideration than is possible in this brief survey and I shall revert to it later on.

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### OUR MONETARY OBJECTIVE

When the tariff reform agitation initiated by Mr. Joseph Chamberlain was at its height in England, Mr. John Morley, as he then was, exclaimed in derision, "we are all economists now." A similar exclamation may now be made about the vast majority of writers and speakers in the press and the platform, the legislative orators not excluded, now that the economic depression has invaded every hearth and home. Everybody is now a monetary monitor; and if he is not, it is high time he became one. The crisis through which the world is now passing is an unprecedented one not only in its causes but in the vicissitudes of its operations. In the midst of plenty the consumer is suffering from scarcity. There is an abundance both of finished goods turned out from manufactories working on increasingly effective methods of rationalisation, and of primary products raised with co-operative effort on a more scientific basis. The supply of both has so out-grown demand that many countries are seriously thinking of reducing production as if that would stimulate consumption; and some have already begun to do so. Whether it is by combines or cartels, by restricted production or tariffs, the object is

to raise prices to a level at which a decent margin in money price would be left as profit to the producer. (It is recognised by everyone that the economic depression is not due to a famine of consumable goods, but to monetary causes which have reduced prices all round resulting in an inadequate yield to the efforts of the producing group.) It is also recognised that it is the shrinkage of currency that has contributed to the fall in the general price level, felt more acutely in countries which have devaluated them. Great Britain has successfully attempted to solve her difficulties by going off the gold standard and her example is being followed by other countries anxious to recover from the present depression.

Even under ordinary circumstances, the peak of the price level would have been reached just before the war and the post-war period must have experienced the commencement of a general fall owing to the inadequate supply of gold. (Twenty-two years ago in a brochure entitled "Indian Monetary Problems," I ventured to predict a fall in world prices owing to the pressure on the only metal doing the purposes of money.) The war has only emphasised the force of the argument. Not only has the world supply of gold refused to respond to the minimum increase of three per cent per annum to keep prices steady as stated by some economists, but there is a growing sterilisation of the available gold by two countries. The United States of America and France have between them stocked about sixty per cent of the world's supply of the yellow metal and sterilised a considerable portion of it. There is no use anybody getting angry with either. (They are only playing the

gold standard game,) and England and other European countries are now following the example. If the nations of the world are to be divided permanently into two groups, creditor and debtor nations, and if the creditor nations insist upon being paid their dues by gold and not by commodities, the evil must inevitably follow. It can be regretted but cannot be avoided. The mal-distribution of gold and high tariff walls have accentuated the acuteness of international indebtedness. Economic nationalism and external indebtedness are two of the violent features of post-war Europe and they have brought in their train a depletion of the world's resources in the medium of exchange—or whatever the insane tariffs have left of their exportable produce to exchange. If the present state of things continues, the world will be bought up soon by the two creditor nations who have the custody of gold and the rest will only have paper for their currency with a fictitious name for their standard. A decade may not be too long a period for this consumption when Europe will be freed from the Midas-touch of gold.

In this deplorable state of things, what is to be our monetary objective? It is upon the solution of this fundamental question that a rational scheme of a Reserve Bank can be founded. (It may now be taken as certain that the gold standard is dead, damned and decently buried.) Even in the pre-war period economists had developed schemes for a gold exchange standard, the object of which was to keep only sufficient reserves for international payments, leaving internal demand for money to be met by inconvertible paper. We had long

coquetted with a gold standard based upon a gold currency. (Sir Hilton Young's Commission contemplated the possibility of the country importing gold in blocks of 400 ounces for which national currency was to be given in exchange and it also envisaged the possibility of the Central Bank issuing gold in like amounts for genuine trade purposes.) Criticism centred rather on the rate at which the rupee was to be exchanged, whether at 16d. or 18d. It appeared to have been agreed that there was no need for gold as currency internally and the agitation for gold coinage in India had all but subsided. We heard only faint echoes about it. Sir Basil Blackett's Bill removed all doubts about an early opening of the mints for gold coinage, and we have been educated into the belief that gold is more useful in the banks than in the hands of the public. The proposals of the Government and the silver agreement on which Sir George Schuster prides himself are based upon the fond notion that we should continue to have an inconvertible paper currency in India, though legal tender to any amount, maintaining sterling only in such quantities as may be needed to meet our external obligations whenever the exports fail us to do so. And a small amount of gold to the extent of thirty-five crores was to be maintained for purposes of oriental ostentation. There is not a single publicist to my knowledge who entertains the notion that we shall ever have a gold standard with or without a gold currency; and the critics are only anxious to obtain a temporary relief by way of fixing the ratio at 16d. the rupee. Capitalist Bombay and capitalist Bengal will be fully satisfied by such an arrangement.

There is no disguising the fact that powerful interests in financial circles in London are organising a sterling block of Empire dependencies to carry on inter-imperial trade with such countries as are off the gold standard as may be willing to tack on their currencies to the sterling. The place of gold is sought to be taken by sterling till world situation shows improvement. Our destiny is also the same. There is no question of the rupee being linked to gold. In the first place, our transactions with gold-using countries are comparatively limited and in the second place since Great Britain has gone off gold, sterling prices are slowly on the increase giving in their turn temporary relief to us as a debtor nation. An increase in sterling prices means the export of fewer commodities for meeting a given amount of debt. I have therefore always failed to understand why some Indian publicists have wanted the rupee to be linked to appreciating gold instead of to depreciating sterling. All the same, it has not been found easy to meet our external obligations—and that is solely to the United Kingdom—by pegging the rupee at 18d. That has been possible of achievement only by pursuing a relentless process of deflation. Since 1920 the currency has been deflated by a hundred and fifty crores. Indian prices—and they are of primary commodities—have been forcibly lowered in order that they might find a market elsewhere. Even then the response has been poor. We had to export gold to the tune of another hundred and fifty crores. If India had not deflated her currency by such a large amount, the bubble of the eighteen penny rupee would have long since been pricked. It showed

a decided tendency to fall in the summer of 1931; and if we had not further followed up the process of deflation by exporting gold to meet the imports, exchange must have fallen to sixteen pence if not lower. It is a lesson which only Sir George Schuster's optimism refuses to see.

(How long then do we propose to export gold to have a gold exchange standard with the rupee successfully pegged to eighteen pence? Why should one kind of paper called the rupee be valued at another kind of paper called sterling, when both of them have only a fluctuating value in relation to gold? British financiers and statesmen have been wise in their generation by letting the sterling find its own level. What possible objection can there be for Indian financiers and statesmen letting their rupee also find its natural level? Indian publicists, of course, were ambitious even as Germany was in the late seventies and the Latin countries shortly after. These wanted to be bedecked in gold in pure jealousy of England. Much was to be excused in a young wife who had just come to her own. But is it anything short of madness that when every country had abandoned gold as a standard but is only clinging to a shadow—its substitute in paper—and intrinsically of no value, we should run after the eluding mirage? The only justification is we are a debtor nation and must pay our debts in sterling. The Imperial arithmeticians at Simla will be hard put to making their budgetary calculations if the rupee began to fluctuate in value. At eighteen pence the calculation is easily made: the arithmetic table will give no trouble. But do they understand what an incal-

culable amount of harm is caused by this compulsory linking of the rupee to sterling? Deflation of currency by practically a third, depletion of the very metal which is to serve our standard, and the depreciation of the other metal which has been for years our mainstay both as a standard and as our currency—that is the price we pay for the enterprise. My powers fail me to calculate the sum total of annual loss by this egregious blunder. A depressed trade, a ruined peasantry, industries struggling, revenues falling, grinding taxation—these are some of the fruits of the rupee linked to sterling.

It will be seen from the foregoing that the supreme question of the hour is whether the Reserve Bank should be our hostage to the United Kingdom for the due fulfilment of our debtor obligations or whether we should first define the policy we must pursue in the matter of the supply of national currency. The worst of managed currency is that the regulation of the supply is not determined by the producing factors, but by interests foreign to the production and distribution of economic wealth. It is immaterial whether the managing agency is the State or a private Bank. The Bank of England which always attracts to its governing body the best available banking talent is not above the reproach of caring more for the interests of the City and less for the interests of the trade. Those interests may sometimes coincide but not always. The Joint Stock Banks, which distribute the credit based on the currency supplied by the Bank of England, virtually control the business that in their view deserves financial support. A State Bank may make mistakes as serious as private corporations



and there is no virtue in a State Bank failing which is the reverse in a private Bank. But the State Bank without the power of manipulating the currency save by the automatic device provided by the trade must bring about the happiest and the most beneficent of results. The merit of the Bank Charter Act of 1844 is that it prevented any manipulation of the volume of currency by agencies which do not reflect and register the natural demand of trade. The Reserve Bank inheriting the traditions of the Government to expand or contract currency as suits its purposes and with statutory powers to do so, will remove the healthy balance supplied by a system which provides for automatic increase or decrease of currency. Whether that currency should be inconvertible paper or some metal other than the impossible and unprocurable gold, and which has an intrinsic value of its own, should be deserving of the most anxious consideration of the public.

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## BANKING AND POLITICS

The handsome tribute paid by Sir George Schuster to "The Hindu" in summing up the debate on the introduction of the Reserve Bank Bill is a welcome departure from the traditional attitude of the 'heaven-born service' to the nationalist Press. It is very much to be wished that the same attitude will be preserved even in cases where honest differences of opinion divide the one from the other. If in this particular instance "The Hindu" stands like a solitary oak foursquare against all adverse criticism, it is permissible for those who do not see eye

to eye with it to express the hope that the motive-spring acting upon either is radically different. Sir George Scbuster has an undying ambition to leave behind him a unique institution for which he can only claim the gratitude of posterity. To have succeeded where Sir Basil Blackett failed is no small title to fame. "The Hindu" is actuated by a far different motive. It is a political organ par excellence and as such it will pay any price to give Federation a chance. Forced to have a Reserve bank, the question with it, as with Sir Purushothamdas Thakurdas, was how best to render it innocuous. Sir Purushothamdas declares in plaintive tones that "the Committee did not consider the wider and more important question whether the economic and currency position of India at present time, or in the discernible future, justifies the launching of a Reserve Bank in the next year or two." If these matters had been considered, perhaps the London Committee would have arrived at different conclusions. Suffering from the handicap, it should not be surprising that every other question raised in the course of the debate in the Legislative Assembly is considered by those who support the Report of the Committee a minor point, a matter of detail, the main question being the Reserve Bank itself.

The folly of committing the country to a particular course of action before the Government have placed all their cards upon the table, has not been committed for the first time by Indian representatives and at the Third Round Table Conference. It is a price which greatness has to pay to secure its own recognition. Thanks to the advent of Mr. Gandhi into politics, the Congress has

ceased to lead the country on financial and economic questions : these do not interest him. The intellectual pabulum of the Congressman has been restricted to problems of a socio-religious character. It is stray views on financial questions that have been adumbrated of recent years ; and at the Round Table Conferences, it was individual views that were voiced. No team-work could be done under the circumstances. No wonder that Sir Purushothamdas allowed himself to be taken in by the smooth words of Sir Samuel Hoare. Away from his spell, he now finds reasons for discomfort. Shrewder men would have hesitated where Thakurdas and his colleagues were easily satisfied ; and since Sir George Schuster's reply, " The Hindu " has also begun to recant. It appears to have been agreed at the Third Round Table Conference that the Reserve Bank was to be free from " any " political influence, either on this or on the other side of Suez. The astute representatives on the Reserve Bank Committee believed in this undertaking and on the strength of it agreed to a shareholders' Bank. But this position has been considerably shaken by Sir Samuel Hoare's answers before the Joint Select Committee. It was only " as far as we can make it " that the Secretary of State for India can guarantee the freedom of the Reserve Bank from political influence ; and there are apparently other influences beyond the first person plural. Sir Purushothamdas Thakurdas is convinced that the consideration of the alternative of a State Bank has become an imperative necessity ; and " The Hindu " solemnly invites the Select Committee to record its opinion that in any future cons-

titution the appointment of the Governor and the Deputy Governor as well as the official nominees should not be left to the Governor-General " at his discretion " but to the Governor-General-in-Council—to rescue the Bank from any political influence.

I think it is time people ceased to talk in disparaging terms of political influences on the working of the Bank. The cant has been allowed rather a pretty long run. I fail to see how any Central Bank, let alone the Reserve Bank of India, can be free from any political influences whatever. Men's minds cannot be divided into so many water-tight compartments wherein may be sorted their views on politics and finance. What is politics apart from public finance? I believe it is Plato who said that man is essentially a political animal and politics comprises all branches affecting public weal. The technical aspect of Banking apart—and nobody apprehends that whatever the constitution of the Reserve Bank there will be any interference with details of day to day administration—broad questions of policy are matters of political issue and a public man cannot view them as a banker pure and simple forgetting his status as a citizen and a member of the body politic.

As Mr. Cole has very properly said in his " Economic Tracts for the Times," banking and politics cannot be divorced and " unless the State take steps to control the bankers, the bankers will inevitably control the State. Banking policy, whether we like it or not, is a most important part of politics; and, unless the politicians and the banks pull the same way, and follow a common policy, it will be not the banker but the poli-

tician who will find his schemes brought to nothing as soon as international complications arise." Recent history all the world over clearly illustrates this point. The Roosevelt drive, whether it succeeds or not, is essentially based on banking co-operation and that in a country where the reserve system, with all its defects, has been working at its best for the last two decades. The co-operation between the Bank of England and the Treasury is so close that one does not know who pulls the other. The Reserve Bank Committee itself was not a bee-hive of bankers and economists and financiers ; it was made up only by a group of the mere politician. And when men like Sir D. E. Wacha, Sir D. M. Dada-boy, Sir Purushothamdas Thakurdas or Sir Pheroze Sethna, whom Sir George Schuster regards as representing the high water mark of banking experience, are appointed to the Directorate, will they function as bankers or politicians ? Do you expect them to be freed from their political bias in approaching the banking policy at any time ? I know of nothing more hateful in public life than the imputation of sinister motives to the politician by men who are themselves in the midst of political strife and sustained by its energising activities. It is not as a repository, the rendezvous of the mere accountant and the book-keeper, but as a living institution pulsating with the hopes and prospects of fertilising credit through a thousand arteries, that the Reserve Bank, I imagine, is intended to work ; and who more interested in it than the political thinker and worker ?

The close connection and interaction between politics and banking are increasingly felt in every country

where Central Banks are functioning. The Federal Reserve system of the United States is an object lesson of the co-ordinated efforts of the political and banking talents of the State. The Secretary of the Treasury and the Comptroller of the Currency are members ex-officio of the Federal Reserve Board and six members are appointed by the President with the advice and consent of the Congress. The Secretary of the Treasury is further appointed Chairman of the Board during his term of office. The Governor and the two Deputy Governors of the Bank of France are appointed by the President of the Republic on the recommendation of the Finance Member and because of the relations subsisting between the Bank and the State, the latter has always claimed a share in its government, and a right of intervention in the administration of its affairs. The system prevailing in these two countries is typical of the position of Central Banks in other countries with certain minor modifications; but the relationship between the Central Banks and their respective Governments is always close and intimate. Indeed it cannot be otherwise. The State having conferred the invaluable right of note-issue to the Banks, it cannot be too vigilant and careful as to how that right is being used. Upon the credit policy of the Banks may depend the industrial and to a certain extent the agricultural prosperity of a people and the State as trustee of its subjects has to exercise sufficient care to satisfy itself that the trust invested by it in its turn upon the Central Bank is not abused. Sir Purshothamdas Thakurdas and "The Hindu" are not opposed to such a kind of political influence being exercised

upon the Reserve Bank ; what they are opposed to is the insidious hold that the City interests in London may have in the regulation of the financial 'policy of India through the appointment of the Governor and the Deputy Governor by the Governor-General ' at his discretion.' Sir Purshothamdas goes a little further and has, I am glad to see, been impressed with the weight of the change in public sentiment in the matter of socialising the Bank of England. The strong feeling among people who may, not in the distant future, be in a position to bring about a necessary change in banking legislation in England has created in him a genuine hostility to our being tied to a similar system irretrievably. The voice of wisdom can only warn us to beware of the pit into which we are falling. We are entrapped into a system which England herself may sooner or later abandon.

In every country where central banking system is in operation it is only fair to add that the principal Bank has long done useful work and its existence has been taken advantage of by the State to give it wider powers and the right to regulate currency. But in India that right has been exercised by the Government of India since 1861 ; and the onus is certainly on those who want to start a new bank to state the reason why. The Government of India have claimed themselves to be the trustees of the dumb millions ; and it is because the millions are dumb that the bureaucracy, whether a de-facto or a de jure trustee, should discharge the trust in a scrupulously honest manner. The management of the currency undertaken by them as such trustees is not owned by them to be a failure. It is not merely the

members of the Civil Service, but also representative financiers have left their impress upon the financial system of India. Sir David Barbour, the eminent bi-metallist, Sir Clinton Dawkins, Sir Edward Law, Sir Guy Fleetwood Wilson and Sir Basil Blackett have controlled the currency policy in a manner which not even Sir George Schuster can cavil at. Within the limits prescribed by the constitution, they administered the financial policy with success and supplied to the country the necessary currency. So far as financial stability is concerned they did their work with wonderful success and with genuine sympathy. I cannot subscribe as such to the ill-informed criticism that members of the Civil Service are incompetent to deal with monetary policy. Sir Edward Baker, Sir James Meston and Sir William Meyer are standing examples against such prejudice. They could not, of course, enter upon the new banking function of expanding currency by re-discounting commercial bills. (That is purely a post-war development in banking business to which the Federal Reserve system has shown particular aptitude) Sir Hilton Young's Commission recommended its adoption with modification in India and its necessity has become imperative in every country as the movement of precious metals has become impossible to meet the internal demand for short-term loans. The Bank of Bengal used to complain that crores were lying idle without the trade absorbing it even at two per cent in the slack season when it was prepared to pay even thirteen per cent during the busy season. That was the difficulty which the Reserve Bank was expected to meet. That,



I believe, is the only function which it can perform in addition to the financial management now in the hands of the Finance Department. If I remember correctly the utmost accommodation that the trade wanted was about three to five crores.

If a Reserve Bank was necessary for that purpose it follows that the solution is not for the trustees to declare "hands off" and resign the trust into the hands of a number of private individuals who may have five-hundred rupees to spare, but to start a Bank of their own and run it under their management. It should be easy for the Government to raise a loan of five crores when money can be had at 4 per cent if capital was necessary; and it does not seem to be the part of wisdom to pay 6 per cent to the investors. Any trustee would be guilty of imprudent management when he pays 2 per cent extra for nothing; and it is an act of breach of trust when what should be shared by 353 millions is handed over to a maximum of five lakhs of privileged plutocrats, most of whom may be non-nationals. But the Government of India need not borrow. They have forty millions lying idle in the Gold Standard Reserve from which they can readily release five crores for the capital. Sir George Schuster has stated that the matter is one of detail to be determined by the Select Committee. Far from it, it is essentially a question of principle whether the State which has been for over three-quarters of a century in charge of financial management should, when some slight function which is more appropriate for a Bank to discharge has to be undertaken, disavow all responsibility and retire from the field handing it over

to a private concern. It is objectionable even if the shareholders are nationals ; but in this country they will be mostly non-Indians. The State cannot withdraw from its proper function ; and the Reserve Bank must be constituted, if at all, as an appendage of the Finance Department. A proposal similar to what Mr. Cole has suggested for the Bank of England would be an appropriate constitution. The Bank ought to be governed by a Court of Directors nominated by the Governor-General-in-Council of which the Financial Secretary and the Comptroller of Currency would be ex-officio members, aided by an Advisory Council, which will be representative of the varied economic interests of the country. Such a Bank will be strictly amenable to the political influence of the Government of India in matters of policy. The greater such influence on this side of the Suez, the smaller will be the influence from the other side. By making it a private concern amenable to no influence, we shall only be handing it over to the control of a body of non-national shareholders acting as agents of alien interests in far away London.

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### NEED FOR DEVALUING THE RUPEE

Two and forty years ago now the Anglo-Indian mercantile community started an association under the name of the Currency Association of which Sir John Mackay was the President. The object of that association, which was also blessed by the Government of India and the members of the Civil Service, was to close the

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mints to the private coinage of silver and thereby prevent the fall in the exchange value of the rupee. Owing to the demonetisation of silver by the European countries which had till then clung to it, silver began to fall in value; and more than the fall, a fluctuating exchange was a source of considerable embarrassment to all who had remittances to make in gold. The Government of India had budgetary difficulties to encounter; Civil Servants had to be compensated for as they had to pay more rupees to remit a given amount of gold as their savings; and the merchants, even though they could avoid the risks of fluctuation by entering into forward contracts, experienced difficulties in calculating the rate at which their commitments stood in the future. The agitation carried on under such auspices cannot but succeed; and we had the Act of 1893 which had brought on us all the worries of the last forty years and ennobled Sir John Mackay who became Lord Luchcape.

The Currency League which has recently been started in Bombay, and on the executive of which we have names from all parts of India, claims to work as intensively as did the Currency Association of four decades ago. But one is not sure if it has as definite and as coherent views as the other. Of course there is unanimity on one point. Everybody is agreed that the eighteen penny rupee should be devaluated at a lower figure. The Chairman of the public meeting, Seth Mathurdas Vasanji Khimji, had no definite views as to the rate at which the rupee was to be linked to sterling. Sir Cowasji Jehangir (Jr.) would be content if the exchange was lowered to sixteen pence. Sir Purushotham-

das Thakurdass referred to the differences among the people about the advisability of a free rupee or a rupee linked to any standard and ratio. He, therefore, suggested that "the public and your League should press for a definite review of the existing conditions by Government and legislature before the Legislative Assembly considers and passes the Reserve Bank Bill." Having regard to the fact that the Legislative Assembly which will consider the Bill is singularly free from the contagious presence of a single economic or financial controversialist of repute, it does not appear to be likely that this is possible of achievement. It is as much as the Currency League can do if it succeeded in encouraging and providing facilities "for 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" in the future,—which appears to be its first object.

But the process of study may be long and tedious and may not bear fruit till long after the Reserve Bank Act had become like one of the laws of the Medes and Persians that alter not. Sir Samuel Hoare had been, since the introduction of the Reserve Bank Bill, clearing the doubts of Lord Rankeillour, and telling him that since the Indian legislature is bringing a Reserve Bank into existence at the instance of the Parliament for bringing the constitution into being, even so any alteration in it can be made only with the leave of the self-same Parliament. It was not clear whether a formal address in both Houses of Parliament would be needed before the Government of India embarked upon any amendment in relation to the "management of the

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currency and exchange" or the "control" of the exchange and currency of the Federation or the assent of the Governor-General "at his discretion" would be deemed to be the assent of Parliament. Sir George Schuster has since given an explanation that what was meant by Sir Samuel Hoare was that the Governor-General "at his discretion" will have the power and that his previous consent would be necessary for any amendment. It will not be the Governor-General with the advice of the Ministers, but "at his discretion," that is, as the Agent of the Secretary of State for India, who will be the consenting authority. Such a position does not make it any more advantageous than the consent of Parliament which was the stand originally taken by Sir Samuel Hoare before the Joint Select Committee.

Though Sir Samuel Hoare has changed his view, the Joint Committee may fall in with the view of Lord Rankeillour and may make a recommendation that the Reserve Bank Act form part of the Constitution Act; in which case, unless the White Paper proposals are completely turned down, we stand the risk of voting for permanent inability to have any amendment in the Act being carried out. The Legislative Assembly has a grave responsibility in proceeding with the Bill without knowing what the Constitution Act may or may not provide as to the method of amending the Reserve Bank Act. It is a tactical mistake on the part of the Round Table Conference to have agreed to the constitution of the Reserve Bank being a condition precedent to the new constitution. If they had agreed to consider it

on its own merits and refused to tack the one to the other, even Sir Samuel Hoare was not likely to have given up political reform because Indian view was against hustling the Reserve Bank through. Anyhow the question is now complicated by the stern reply of Sir Samuel Hoare that, as part of the constitution, Parliament which passed the Constitution Act must have its say on any amendment to it.

And why all this tergiversation of Parliamentary sanction? Sir Samuel Hoare has with equal frankness declared the chief ground of his apprehensions. It is that for many years to come India will have to depend for its development on external loans and that the conservative lender in London will look askance at Indian stock unless this safeguard was given. The Indian delegates who cross-examined him seem to have resigned themselves to the inevitable fate of perpetual enslavement to the foreign bond-holder and not tried to elicit from him whether the "financial freedom" of which Sir Basil Blackett was so eloquent was only another name for unrestricted borrowing and whether he did not envisage the possibility of our ever being independent of the London money market for our financial credits. Nobody quarrels with the conservatism of the London money market, but the future economic policy of the country will be to disown any connection with the foreign lender. Sir Basil Blackett fully appreciated the need to restrict sterling borrowing and helped during his regime in reducing foreign indebtedness. But it was given to Sir George Schuster to revert to the old policy and he was responsible for seeking the London money

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market at a ruinously heavy cost even though there was no occasion for it. If the post-Schuster policy will be to abandon sterling borrowing, no Indian Finance Member need care for the feelings of the loan market in London in re-adjusting our currency policy. It is regrettable that Sir Samuel Hoare was not told that sterling borrowing will not be a feature of Indian finance and the provisions regarding amendments to the Reserve Bank Act need not be hampered by such a fear. And the Federal Parliament will be false to itself and will have betrayed its trust, if as the first act of financial reform, it did not convert the entire sterling loan and place it on a rupee basis, what time sterling stands divorced from gold.

Incidentally, Sir Samuel Hoare's statement about the progressive dependence of India on the London money market for her capital expenditure, must damp the ardour of those who have been living in a sort of fool's paradise that the Reserve Bank is going to bring about the agricultural and industrial millennium of India. At best it may be of some help to industries and agriculture in the process of their semi-production; or more accurately in the process of their transit from the producer to the consumer. But as for financial credits for capital expenditure the Reserve Bank can be of absolutely no help. Rather, by withdrawing a portion of the liquid capital of Joint Stock Banks as a reserve for the Central Bank, the financial credit available for stimulating production is by so much contracted. I am not in the least decrying the need for such deposit by member banks with the Reserve Bank; that is the price

they have to pay for the Reserve Bank re-discounting the bills with their endorsements. But it cannot be forgotten that the amount utilised for expanding commercial credits is so much abstraction from the sum total available for financial credits. If industries are to be built and if agriculture is to prosper, it is to the joint-stock and co-operative banks that we should turn and not to the Reserve Bank. The regulation of currency and credit by Central Banks, and in the case of India by the Reserve Bank, cannot, as Mr. Jayakar mistakenly supposed in his interrogation of Sir Samuel Hoare, by the very nature of things affect the conditions touching the growth of capital, and therefore of the amount available for permanent capital expenditure.

That depends upon the amount of currency in circulation at any particular time. It is now admitted even by those who are most ardent critics of the quantity theory of money and find many circumstances and causes as hindering its working in practice, that in the main the level of prices in a particular country at any given time is dependent upon the volume of currency; and the splendid author of "The Dual System of Stabilisation," has in his book, "The Crisis of the £," pointed out that "if credit is expanded at the same time currency is contracted, prices will fall;" and that likewise, "if the volume of bank credit is maintained by the simple expedient of lowering the cash ratio, this will not prevent a fall in prices, if the currency has been contracted." The volume of currency is the determining factor in the regulation of prices. Mr. Taylor Peddie's observations have been fully borne out by the statistics given in his



book and which I need not recapitulate here. If a further practical proof is desired of the necessary connection between currency and prices, I cannot do better than recommend a perusal of the "Portuguese Bank Note Case" by Sir Cecil H Kisch, wherein he narrates how the illicit emission of the Escudo in 1925 by the Bank of Angola and Metropole of about a million and hundred thousand pounds or six per cent of the inconvertible currency in circulation, had the effect of depreciating it by more than that percentage and he adds that "until the announcement of June 1931, it was a matter of fairly obvious inference that the depreciation of the Escudo from E. 95 per £ in December 1925 to E. 108 in 1928 was to be definitely connected with the expansionist policy involved in the exchange of notes and embodied in the Contract of the 21st July 1926 to which the management was inevitably driven." That was in a country where inconvertible paper currency was being managed by a Central Bank for over thirty years.

What then is the provision made for the expansion of currency to meet the demands of the people for increased capital requirements? If there is no provision for the Reserve Bank adding to the currency, the growing requirements of the country on a limited volume can only reduce prices though it may be offset by the velocity of circulation. In every country which has a monetary standard, whether the standard of value be gold or silver, the influx and efflux of the precious metals was the basis for the banks issuing currency, including in the term both metallic coins and notes. But since precious metals have practically ceased to be the stand-

ard, Central Banks are issuing Inconvertible paper for circulation within each country; and Governments have begun to control the issue of such paper. The management of the currency has become the joint business of both Governments and Central Banks, though the degree of influence exercised by the one over the other may be more or less great. In the United States the President has practically taken up the control and the Federal Reserve system has to regulate its policy according to his dictations. He has fixed up a price for the purchase of indigenous gold and its repercussions on the world price of gold and the Central Bank policy of France, the only remaining gold standard country, as well as of the other countries, remains to be closely watched. In India the Reserve Bank Bill has laid down that the policy is to be to maintain the rupee at eighteen pence and the Bank will freely enter into what are called "open market operations" for maintaining the rupee at that rate. The Bank will purchase securities and inflate the currency if the exchange rose higher and sell securities and deflate the currency if the exchange fell. The stability of exchange will be the policy of the Reserve Bank as opposed to stability of prices. The volume of currency will be dependent upon this one principle, namely, the stabilisation of exchange. The country can carry on only with the currency available already if an expansion of it will lower exchange. The result is the starvation of capital.

It is not therefore surprising that Sir Samuel Hoare, who is abundantly advised about the inadequacy of currency and its strict limitation, thinks that for capital

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requirements we must go to London money market. The Currency League has therefore to address itself to the supreme task of increasing internal currency which is being artificially contracted. (It can only be done by devaluating the rupee. Why at 16d.? Why not let the rupee find its natural level? In other words, why not open the mints to the private coinage of silver? The value of the silver possessions of the people has been reduced by at least a thousand crores by the stupid blunder of the Act of 1893.) Cannot our statesmen have the imagination to conceive to what an extent the wealth of the people can be increased and developed by restoring to the people the thousand crores of wealth of which they have been robbed? The Franc has been devaluated to a fifth of its pre-war rate. We have not to devaluats the rupee by more than a half and we shall then have given a tremendous fillip for our agricultural and industrial future. Will the Currency League undo what the Currency Association did?

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### THE SELECT COMMITTEE REPORT

The Report of the Select Committee on the Reserve Bank Bill has not as may be expected, allayed the apprehensions of those few who, like myself, have perceived in it only an instrument for forging further fetters on our financial bondage and refused to see in it a measure of financial freedom. There have been some improvements in the detail which, granted that the broad principles are calculated to improve the currency system, may

be held to be of some technical advantage ; but it is the broad principles that deserve anxious consideration. The members of the Legislative Assembly before whom the Bill as shaped finally by the Select Committee come up for their endorsement, cannot do better than examine a bit closely the implications of the Bill as it has emerged before them. Sir George Schuster is reported to have said that he will not consider the question of the ratio even if the Assembly should press for it ; and a majority of the Select Committee seem to have accepted the assurance of the Government that they were only concerned in the Bill with starting the machinery of a Central Bank leaving wider issues to be debated later on and for which they would be ready in time with their answers. It is to be hoped that this attitude will not be meekly submitted to by the Legislative Assembly, but that the members will insist upon an analytical examination of the basic principles of the Bill and how far they are satisfied by its provisions. A brief reference to the preamble of the two Bills of Sir Basil Blackett and Sir George Schuster will disclose the paramount importance of such examination. It will show the very long road that has been traversed not only in monetary practice, but in the general conditions for the effective working of the monetary standard that the one openly strove to achieve and the other is ashamed to own to be its objective.

The Bill of 1928 began by declaring that "it is expedient to provide for the establishment of a gold standard currency for British India" and therefore proposed to constitute a Reserve Bank to control the

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working of that standard and regulate the issue of bank notes and the keeping of reserves with a view to securing stability in that monetary system. With that end clearly in view, Sir Basil Blackett's Bill of 1928 made certain definite proposals. It proposed to constitute a reserve in gold or gold securities of forty per cent of the note issue and suggested methods of retiring gradually the rupee portion of the reserve which was to be reduced to fifty crores. The identical proposals are made in the Bill which, as the preamble shows, does not contemplate the introduction of a "gold standard currency." The Bill further says that "it is expedient to make temporary provision on the basis of the existing monetary system, and to leave the question of the monetary standard best suited to India to be considered when the international monetary position has become sufficiently clear and stable to make it possible to frame permanent measures." If that is the view, why lift up bodily the provisions in the Bill of 1928 relating to the gold reserves which contemplated a gold standard currency and embody them in a Bill which does not contemplate anything, but proposes to wait with hands up for the turn of events in Europe and America? It is notorious that the gold in the Paper Currency Reserve is not either the first or the last line of defence for the stability of the rupee-sterling exchange. Indeed, even the Gold Standard Reserve, whose definite purpose has been repeatedly assured to be to support the exchange, has not only failed to do so, but has been diverted to the illegal purpose of supporting Thregmortan Street. That being the case, it cannot with any decency be advanced

as an argument for the percentage retention of the gold reserves in the Issue Department that the object is to maintain the status quo. The proviso to clause 35 relating to the transfer of initial assets and liabilities, which states that "the total amount of the gold coin, gold bullion and securities of sterling standard countries so transferred shall not be less than one-half of the whole amount transferred," following clause 33 of the Bill of 1928, is indicative of the determination of the Government to work for the sterling-exchange standard, leading, if possible, and should Great Britain ever revert to gold standard, to a gold exchange standard, despite the preamble.

Burke in one of his celebrated speeches—and every speech of his is celebrated—ridiculed the constitutionalists' fondness for what he called "empty words of a preamble." Whether the preamble for the Schuster Bill has any import or not to those who framed it—and I take it that it is only a tribute to the economic wisdom of the world—it cannot be contended that the provisions do not go beyond the intentions as expressed in the preamble. It is possible that to Sir George Schuster as well as to those on whose behalf he speaks, the monetary position of the world is much clearer than to the rest and to them a sterling-exchange standard may be an adequate solution of the problem. But why insist upon a combined fifty per cent gold and sterling reserve to start with and why limit the rupee coin to a maximum of fifty crores if the question of the consideration of the standard best suited for India is to be deferred till the international situation improved? It is also possible

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that Sir George Schuster is not one of those who like Mr. Keynes believe gold as "a barbarous relic," but is wedded to the blind orthodox theory of a possible reversion to pre-war gold standard. In such an event, it would be a more straightforward way of dealing with the business by avowing the faith and not conceal it within three paragraphs of preambulatory "empty words." The monetary situation has assumed such a serious proportion and the resurrection of a gold standard on orthodox lines has struck him to be so obvious an impossibility that in his interesting brochure, "The Means to Prosperity," Mr. Keynes has advocated the introduction of an international money to be issued by an international bank in the form of gold notes in exchange for gold bonds, to the total of five thousand million dollars, to be distributed on the basis of gold reserves, held by the respective countries at the end of 1928. India would according to his scheme get a hundred and twenty-four million gold dollar notes as a basis to regulate her internal currency with. Sir George Schuster wants to maintain a minimum of thirty-five crores in gold coin and bullion and a forty per cent sterling asset, including actual gold, for "securing monetary stability in British India," based on an indeterminate standard.

And now may I ask him in all humility, what is his idea about increasing internal prices, whether as a part or not of raising world prices? The heavy fall in world prices and especially of Indian prices compared with European prices, which has not only reduced the purchasing power of millions to the verge of starvation, but has increased their indebtedness to

the Sirkar in grinding taxation and to the Sowcar to meet the current expenses of cultivation, is the one stupendous problem of the hour and the only point of view from which rational criticism can judge is to see how far the provisions of any new measure can ease the situation. There are people who think that the last word in financial organisation is the Central Bank, though an impartial study of the history of Central Banks during the last two decades must moderate one's enthusiasm for it. Readers of Gustav Cassel's works will have seen how Central Banks failed, everytime there were occasions for them to act, to have taken the proper step, and when they did act, to have acted wrongly. Even as regards the Federal Reserve system criticism is legitimately made that it has not yet devised the technique for the application of the credit to proper channels, to purely commercial purposes and not to the encouragement of speculation in the stock-exchanges. Men, of course, have to learn by mistakes; and one of the strongest objections to the entrustment of credit and currency policy to the management of bankers is that it is not possible to secure men with that unerring capacity to judge and decide as is necessary when currency and credit are to be "managed" instead of being allowed to be regulated automatically. Let us assume that we are going to have a succession of supermen in the Governing Body of the Reserve Bank of India who will avoid the mistakes and errors of judgment of banking authorities all the world over; what is to be their policy for bringing the level of prices in India to an economic equilibrium? How does the



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Reserve Bank propose to help in the restoration of prices to the cost of production? That will be the supreme test by which it must be judged. (If it is not going to help in the restoration of prices, there is no need for a Reserve Bank at all: we do not want it as an ornament, a financial Taj Mahal.) It will only remain as evidence of our monumental weakness for imitation.

It is here that clauses 40 and 41 of the Bill assume importance. Those clauses declare that the Bank shall sell and buy sterling at a specified rate to meet any demand above ten thousand pounds. This buying and selling power of sterling at a statutory rate imposes a definite condition on the bank to keep the exchange value at a particular rate. Neither excess of exports following an inordinate demand for Indian goods as a result of the recovery of prices in Europe nor any excess of imports should the gold exports cease, can be allowed to let the exchange depart from the statutory rate. In either event, the Reserve Bank will enter into open market operations to correct the balance of trade and the deviation in the exchanges. The whole pivot of the situation lies there. If the clauses had been abrogated, and if the Reserve Bank had power to manage the credit and currency policy in a manner that, in the opinion of the management would be best calculated to advance the economic condition of the people by the necessary supply of currency, that is, if it had been given a free charter, that would, of course, be an understandable arrangement; but one fails to see any sense in a policy which has effected an abnormal contraction of currency and starved the people of their capital, and

starts a Reserve Bank to meet the seasonal demand for short term loans. It is just like killing a cow and making a present of a pair of sandals to expiate the sin.

Let me illustrate this point. There are of course no definite data, but my own estimate of the actual circulation of currency just after the conclusion of the war is three hundred and fifty crores in rupees and one hundred and fifty crores in notes or five hundred crores in all. Since then the Government have contracted currency to the extent of a hundred and fifty crores, leaving in rupees and notes a circulation of three hundred and fifty crores. We have got to make an allowance of one per cent per annum for wastage of rupees, which would absorb about forty crores. We have then a balance of three hundred crores in circulation, which is three-fifths of the circulation in 1919. There has been an increase in population of over ten per cent and there must be at least an addition of three per cent per year to keep the price steady. To maintain the price level of 1919, we should have in circulation about seven hundred crores. We have three-sevenths of it.

No wonder that the prices have fallen in India to an extent that has staggered humanity. The debtors' liabilities have more than doubled; and their sources of income have been crippled. Their produce do not bring in even the cost of their production. Landlords are ruined and the peasants are starving. Labour is mutinous and bankruptcies are increasing. Can the Reserve Bank restore to the country the barest minimum

of currency needed for the economic condition of the people? Seven hundred crores will give three hundred and fifty millions of people rupees twenty per head to carry on their transactions and transactions in India are still in the main by cash. Far from the Reserve Bank doing any such thing, it can only allow a modest expansion, as one estimate shows, of fifty crores in note circulation! That is on the assumption that it does not stimulate imports which continues steady whereas the exports are falling. But Europe and America do not propose to let India live. The Yen and the Dollar are vying with each other in their race for depreciation. The Yen began the start and the Dollar is following closely on its heels. That means, Japan and the United States will "dump" in India the very things we have every economic facility and advantage to produce and export. It may give work for the Tariff Board to devise methods of bounties, quotas, tariffs etc., to protect us from our financial mentors who have decided that we shall work only with less than fifty per cent of the currency economically necessary to carry our business with. The spectacle of the Commerce Department trying to undo the mischief of the Finance Department can only add to our gaiety, if it is not at the same time so tragic in its effects.

The physical incapacity of the Reserve Bank to double the rupee circulation coupled with the paramount importance to do so at the earliest opportunity has induced men like Sir Montague Webb, to advocate free silver. His trenchant criticism of the Government's currency policy must be of some comfort to those who

have been ploughing their lonely furrow in the cause of free silver; and when it is viewed in the light of American attempt to improve the price of silver, the resuscitation of the value of the white metal, may be considered to be not a long way off. That the rupee is now too highly valued and must be reduced by an eighth is also becoming the fashionable view of even some Anglo-Indian merchants and bankers; and one may yet hope that should the process of further reflection fail to convert them into whole-hoggers the competitive depreciation of the Dollar and the Yen may yet succeed. They may yet be convinced by the force of circumstances to abandon their faith in banking manipulations to inflate currency and prices and pin it to the opening of the mints to the free coinage of silver. I know of no method by which Asiatic Powers can regain their economic salvation, especially India and China, than by retracing the step taken by us forty years ago. The choice before us is inconvertible paper money or the honest silver rupee. The hankering after a lower ratio is evidence of the distrust of the people to take to sterling as a means to gold. Their destiny is still the rupee, not three-fortieth or one fifteenth of the sterling. It is not then a maximum of fifty crores in the Reserve Bank, but of five hundred crores in silver that we should aim at. It does not seem to be easy of early realisation till we have paid, and, what is more, till we have realised that we have paid, a heavy penalty for it. The whirligig of time brings with it its own revenges; and we shall yet profit by our miseries.

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## FINANCIAL FASCISM

After a protracted discussion the Legislative Assembly passed the Reserve Bank Bill and gave it as its annual gift to the country. Sir George Schuster was all suavity throughout the debate having won all along the line. The fight was among those who supported him and those who opposed him and it was carried on in a spirit of unexpected acrimony. One honourable member at the close of the debate is reported to have expressed a wish that the race of a certain critic may never be returned to the Legislative Assembly. Unhappily that wish cannot be satisfied as the Viceroy has extended the tenure of the Assembly for another year. Another member is reported to have condemned the ingratitude of a people who failed to appreciate his sacrifices in going to London and helping in the formation of the Report on which the Bill was drafted. These recriminations were enjoyed by the Treasury Bench with innate glee, for they at all events know the purport of the Bill which has been so vociferously supported by the members. They knew the feeling that a similar measure evoked just five years before, the criticism to which it was subject both in and outside the legislature and how the Secretary of State thought that discretion was the better part of valour and withdrew the Bill. Five years had made a tremendous change upon our legislators and an apology of an Assembly that was, passed by a decent majority a Bill the implications of which it can only be hoped that they do not clearly grasp. Sir George Schuster managed cleverly a body which was prepared to swallow any pill offered to it

The arguments advanced by him can only pass muster in an Assembly as at present constituted. I have dealt with the various aspects of the Bill in the course of my articles in sufficient detail.

One important fact which should not have been forgotten in the consideration of the measure that has been passed—though it has been passed it will still be with us like Banquo's ghost at the festive board—is that the Reserve Bank Bill is not an isolated measure passed with the sole view of regulating the credit and currency policy of British India, but only a thin end of the wedge in the general scheme for establishing what I have no hesitation in calling financial Fascism. The constitution of the Reserve Bank was made a condition precedent for the introduction of reforms and why? What if the Reserve Bank had not been brought into existence prior to the gift of central responsibility? Obviously, the Finance Member, who will be an elected member of the House, will have devolved upon him the function of regulating credit and be responsible to the Legislative Assembly for the currency policy of the Government. That would be too much for the Die-Hards and it is assuredly too much for Sir Samuel Hoare. Fancy an Indian Finance Member handling the credit and currency policy of a sixth of the human race! Even the United States and Soviet Russia have not conferred upon their native subjects the right to regulate the financial policy of such a large body of men. The population of India is equal to the population of the United States and Soviet Russia. If an Indian Finance Member is to take charge of the finan-

ces at all, why not attenuate his powers by divesting a considerable portion of the powers now exercised by European Finance Members? Leave with him the odium of taxing the people and getting unpopular—for, as Sir Josiah Stamp in one of his Newmarch lectures said, no man can pay a tax and then be pleased any more can he love and then be wise—and take away from him the supreme function of regulating his country's credit and currency. That has been the attitude of the Government here and in England.

The future Finance Member will not only have his wing cut down ; but there will be set up against him a Financial Adviser who will act as a sort of spy on the actions of the Finance Member and make reports as to his behaviour to the Governor-General. No self-respecting Indian can take upon himself the responsibility of Indian finances under such conditions, but I do not say men will not be forthcoming for that task. Into the personal aspect of the future entrants for the competition race to the Finance Membership, I do not want to enter ; but I am anxious to draw attention to the fact whether the divesting of the powers of the Finance Members in respect of the management of Indian currency and credit and the appointment of a Financial Adviser, who will be a public and recognised official "spy," do not seriously detract from the worth and value of an office which has been found not to be too exacting till now in the capacities of the holder of the office. Constitutionally is not the legislature deprived of the right it now has in questioning and criticising the Finance Member as regards his conduct in currency

matters? I ask any student of the proceedings of the Legislative Council when Mr. Gokhale was in the Council to read his speeches and tell me if a major portion of his criticisms do not relate to the currency policy of the Government. I ask him also to read the budget speeches of various Finance Members from the days of Sir David Barbour, not to go back to the days of Sir Auckland Colvin or Sir Evelyn Baring (afterwards Lord Cromer) and say if a considerable portion of their statements do not refer to the elucidation of the currency policy of the Government. Now, the Finance Member is muzzled and public criticism is muzzled and the forum for the ventilation of the grievances, if such could be found, is changed from the Legislative Assembly to the shareholders' meeting of the Reserve Bank. I wonder if it would be competent to the Legislative Assembly to attack the policy of a shareholders' bank; and even if it would be competent for the Assembly to adopt a resolution it can have no effect upon the management of the Reserve Bank. I can understand a complacent Finance Member, afraid of the Financial Adviser, telling pertinacious interrogators that an expert body of Governors and Directors are in charge of the currency policy and it was no business of amateur critics poking their nose upon the preserves of super-bankers. I ask whether the legislature has deserved the deprivation of that right, though their vote on the Reserve Bank Bill makes one think so.

May I further point out that in none of the front ranks among the various groups into which the Legislative Assembly is divided, is there a single outstanding



personality of the type of the late Sir Pherozeshah Mehta or Motilal Nehru, who will, when he finds that the policy of the management of the Reserve Bank is opposed to Indian interests, come into conflict with it, challenge its policy and bring in a Bill to amend the Reserve Bank Act even at the risk of provoking the opposition of the Financial Adviser or the Governor-General? Such a man may be in embryo; but he is not to be seen. The collective wisdom of representative men is therefore to be relied upon as against the impossible hope of a strong Finance Member. That there will be no need for interference is the faith of those who have advocated a Shareholders' Bank for, with a State Bank, it would be a different matter altogether. The legislature which will vote its salary will control the officers who receive the salary and I know the example of a number of countries which have established Central Banks will be quoted against me. But if any lesson can be derived by the example of other countries it is the folly of leaving the currency policy to be governed by Central Banks. It was the folly of the Federal Reserve system which lent so feverishly its short term credit funds to European borrowers on long term loans who were able therewith to swell the short-term deposits which they ultimately withdrew, that caused the crisis of 1929; and American financiers admit that it was the expansion of credit far beyond the requirements of production that started the crash in Wall Street. It was again the wisdom of Lombard Street which lent in long-term loans to Germany and other smaller Powers the short-term deposits

of France and the consequent demand for withdrawal of those funds from England that drove her off the gold standard. The failure of the Central Banks to keep their credit policy to the just requirements of production, to distinguish between speculative demand for stocks and genuine demand for trade, must be an ample warning to us not to pin too much faith in the management of the Reserve Bank, unless the legislature keeps a steady eye upon it.

In passing the Reserve Bank Bill the Legislative Assembly has unconsciously voted for the establishment of a Fascist regime in the matter of banking. The Governor of the Reserve Bank will be the head and he will draw within his hands the control of the entire machinery of public finance. The legislature will, of course, have the titular right of amending the Act and the shareholders, if they meet once in a year, may look into the matter if their dividends fall. And they are so numerous and so widely distributed that they can hardly take concerted action. The local and the All-India Directors may certainly be expected to interest themselves, till their first dividends are paid, about the activities of the Bank. It would be too much to expect of human nature to be always dividing or to be always taking a critical or an obstructionist attitude ; and one can therefore be sure that a strong Governor will always have his way with his Directors, who will be ready to place their reliance upon the expert knowledge of the Governor. This is not to sound a note of alarm, or of suspicion. The Bill is passed and we shall have the Bank in being shortly, as Federation is expectantly waiting for it.

Only it is necessary to know beforehand what the monetary policy of the Bank is going to be so that the general tax-payer, whose funds will be the source of its wealth, may know how far that policy is successful. Is its policy going to be one of hand-to-mouth existence, to stabilise exchange with the sterling; or is its policy going to aid the United Kingdom in the restoration of a gold standard? Has it any policy to raise internal prices or for that matter is it going only to "wait and see?" Is its policy going to be to enter into the economic life of the people and if so to what extent? And how? There is no use of perorations about an institution which starts on a sordid basis as money. Will it pave the way for entering into a negotiation with America for re-monetising silver in the interest of the large silver-holding peasants whose metallic capital has been practically dwindled into nothing? Has it any policy for stabilising incomes as an alternative for stabilising prices or the exchange? Or has it no policy at all on any of these things except *festina lente*? More than democracy or autocracy, Fascism must have a policy. I have watched in vain the flood of oratory from angry legislators for some fruitful moisture for my parched queries. Alas! in vain. Perhaps, when the opening ceremony of the Bank is performed we shall know something about its *raisend'etre*. And till then *au revoir*!

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### ECONOMIC DISTRESS

Trade has shown signs of recovery and unemployment is on the decrease in England. Further West,

the blunders of Wall Street are being retrieved and from the disasters of 1929 Uncle Sam is slowly recovering. France, always fortunate, never showed signs of economic backsliding and has stood the "slump" fairly well. In Germany, Hitler has begun with a resolution which is but an echo of the confidence of the people and is he not following the example of Mussolini? Whatever may be said of the political effects of Fascism, the economic upheaval of Italy is remarkable and she is becoming self-contained. The people naturally poor, and with emigration prevented, have begun in right earnest to make their country self-sufficient. The swamps and the wastes are being reclaimed and the State is doing all it can to keep the wolf out of the door of the peasant. As for Soviet Russia, her first Five Year Plan is concluded and she has commenced with hope and cheerfulness the second Five Year Plan. There, they do not produce for profit, but for general consumption and her recovery is so conspicuous that the United States of America has already commenced successful trade relations with her. It is in Central and Eastern Europe that the "slump" is making itself felt and to them the New Year has not brought any cheer.

And how do we stand in India? The retiring Governor of Bombay embraced every occasion to draw the attention of the people to the deplorable agricultural condition of the peasant and has left to his successor the adoption of remedial measures. In Bengal, the local Government has been able to find time to make an economic survey. The United Provinces have begun a Five Year Plan, only of what we do not know. In the

Punjab, there is a similar awakening. In Madras, the pittance of suspension is going to be remitted of the demand on land and a similar dole is promised also this year. Even the Government of India have been able to move in the matter, and they have started an economic survey. Two English professors have come down and they will tell us by means of statistics that people are producing what they cannot sell and that buyers have no money to purchase what the sellers are eager to sell and the purchasers anxious to purchase. I understand they are going to collaborate with one or two local professors and surely we shall have in four months elaborate instructions given for taking an accurate census of production. But is it a census of production that we want or a census of consuming power among the masses? A census of production for a starving peasantry is an unwanted commodity and it may not have a demand. It reminds one of Moliere's statement that no man has a right to die unless according to the prescriptions of the faculty of physicians.

Are these attempts calculated to take us a single step forward in the relief of economic distress, or are they intended only to conceal our helplessness? In the West, where production is on a large scale, it is possible to get accurate returns of unemployment; but in India where production is a domestic venture it is not possible to measure it except among factory workers. In his evidence before the Royal Commission on Gold and Silver, Professor Marshall referred to his visit to Palermo where the mediaeval traditions of industries went on, and if one had tried to collect statistics of want of

employment, one would probably have found, he said, next to none. " Scarcely anybody was thrown out of regular employment because scarcely anybody was in it." The difficulty is due to the fact that irregularity of their employment is the rule and not the exception. That is exactly the situation in India. Here the people take a job when they get it: they never are out of employment. There is nothing to get into the newspapers. But the acuteness of the suffering is all the same poignant. No possible census of home production, in the domestic circles, can give any indication of the poverty and distress of the workers; they can only be estimated from the value of the goods they are prepared to exchange for their necessary consumption. Every effort has got therefore to be made to secure to them a decent price for their products, a price which will meet their cost of production and their economic condition. It can only be done by putting into the hands of the whole mass of agricultural labourers and other manual workers sufficient funds and by ensuring to them sufficient work at public expense where private enterprise is shy and backward. There is no use refusing to go to their help because others may also share in their prosperity. The bogey of the speculator is an excuse for inaction and is not an index of one's capacity to overcome difficulties.

May I suggest that the Government start at once a fund called " The Economic Distress Fund " of five hundred crores? It would be more than enough to kill our universal and perpetual foe. And I suggest that the Government hand over that fund to an Economic Recovery Board with directions to use it for certain definite

purposes. The Government might themselves print the notes or empower the Reserve Bank to issue them, either way taking power by means of appropriate legislation. The Board will give as a free gift to the Local Governments one hundred crores to be spent upon free primary education. The Board will give another hundred crores to the Local Boards for village wells and village sanitation. This sum will be lent to the Boards at a maximum of three per cent interest on bonds to be issued by the local boards according to their needs. A third hundred crores to be lent to a Road Development Board who will also lend the amount to various provincial boards who will manage the construction of roads and the water-ways of India. The interest on this sum can be met by the road cess now levied by the Local Boards and the Local Governments. A fourth hundred crores will be lent to a corporation to be started by Government who will spend the amount in chemical research, and in the manufacture of dye-stuffs and allied chemicals—do in short the work which the Chemical Foundation in the United States of America and the Imperial Chemicals in the United Kingdom are doing. The capital of the Imperial Chemicals is seventy millions sterling, and that would be the sum which this corporation will start with. The last hundred crore the economic Recovery Board will have in its hands as a reserve, for applying it when needed for every kind of agricultural and industrial research and also for being advanced to struggling industries like steel, sugar, silk, etc., at a maximum of three per cent interest. The whole of the four hundred crores must be capable of being used in a period of three years.

Where the fervid eloquence of Mr. Lloyd George and the economic reasoning of Professor Keynes failed to convince the National Government of the supreme need for increased loan expenditure on public works, on such essentially useful social services as house-building, slum clearance and development of roads, it is hardly likely that a sweeping proposal of this kind can find support in India. In the United Kingdom there is no question of finding money and there is an excellent investment market, if only the Government were minded. But it is opposed to the traditional lessons of public finance which the Treasury has learnt at school to make such a revolution in public expenditure. In India there is no market for investment funds to be raised from. We may have to wait till the Greek Kalends if we thought of effecting any of the purposes without the State creating funds for that purpose. It is recognised that the present illiteracy among the people is a scandal and if elementary education such as may be necessary to distinguish man from the brute is to be made universal you cannot do it without sufficient funds. A hundred crores spent upon that laudable object will repay the Government manyfold. Mr. Gandhi is now making a spectacular effort to "lift" the Harijans; but not all the opening of the Hindu temples could bring them one inch nearer the realisation of the ideal if the State is not going to clear the slums in which the submerged humanity have been living for ages. What they require are pure water and buildings worthy to live in good sanitary condition. Invest a hundred crores in providing the village with decent drinkable water and houses



better than pig-sties, their sense of self-respect will lift them up from their slough of brute creation. Two hundred crores spent exclusively in the villages will give work to millions of the under-employed and will be an asset of permanent value to them. The development of roads and waterways by another hundred crores will enable the village produce to be more easily brought to the consumer than now. The cost of internal transit, which is very high, is one of the main reasons for the slow development of internal trade. And this sum spent in wages in the main will improve the lot of the labourer while it will prove to be of permanent value to the home producer. Of the need to start a corporation which will encourage chemical research and manufacture all the chemicals we require, nothing need be said. The example of the United Kingdom and the United States after the War ought to be a clear warning to us. Unless we are to be the perpetual slave of these two countries as we have been,—and as they also were before the war—to Germany, it is surprising no effort should be made in India to satisfy our home need for chemicals and other allied trades. The last hundred crores to be used as a reserve may be utilised occasionally for helping home industries by suitable loans at greatly reduced rates of interest so that they can well stand on their legs with such help or make free advances to communities stricken wholesale with such painful calamities like the earthquake in Behar.

The important question will be how can the Government start on such a programme and where are the funds for it? I have suggested the issuing of notes

by Government for that amount or directing the Reserve Bank to issue such notes. One hundred crores will be a free gift for primary education and I venture to submit that will be a fiduciary issue uncovered by assets. But the remaining four hundred crores, of which one hundred will be in the reserve, will be issued in exchange for Local Government Bonds for the various purposes I have mentioned at a small rate of interest of three per cent, and it is not intended that the Government should make any profit on these transactions. The increase of about four hundred crores in the course of three years, which I trust will be necessary to absorb that amount, will not "inflate" the currency; it can only "reflate," because we had gone on foolishly "deflating" the currency during the last decade. I have in a previous article pointed out that in normal circumstances if the currency had not been managed with a view to stabilising the exchange at a particular rate, we should have a money circulation in notes and rupees of seven hundred crores; but that we have only fifty per cent of it. But if the inflated currency has this result, namely, of the whole of it being returned to the people in more useful directions, and for being spent in better purposes, the sacrifice may be said to have been made not in vain. We may console ourselves with the reflection that it was a sort of capital levy for nation-building purposes. There was an interesting debate in Parliament the other day when the Dye-Stuffs Import Bill had its second reading and Dr. Burgin, the Parliamentary Secretary of the Board of Trade, said that if the prohibition of the importation of the dye-stuffs and intermediary products

except under license had not been made permanent, "users would have been in the hands of Continental manufacturers." Should we perpetually be in the hands of British manufacturers not only for the chemicals but for everything we want? But we cannot build up the nation unless we have money to spend upon it and improved men to work at the industries. The only repercussion that I can see will be upon rupee-securities; but that is a minor matter.

With a State Bank the scheme will be easy of achievement? Will it be possible with a Shareholder's Bank?

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## Appendix

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### AN OXFORD VIEW OF MONEY

The proper study of man, said Pope, is man; it may be more appropriately said that it is money. Its vagaries are as great as those of man; and the ills to which it is subject no less. Its vicissitudes, its fortunes and its travails are as wide and erratic and it is as difficult to understand them as it is to understand the mind of man. Its disease—and it is now attacked by a severe type—cannot be comprehended, much less cured; and as one doctor diagnoses it and prescribes a remedy, there are half a dozen others who give it another name and prescribe another set of remedies. Economic experts can never be wholly trusted, is the fatal conclusion to which Mr. Gaitskell, Lecturer in Economics at University College, London, comes, after carefully discussing the views of four distinguished heretics, Major Douglas, Professor Soddy, Silvio Gesel and Dr. Eisler. These economic heretics do not stand by themselves. Their views appear not only to have received considerable popular support, but to have been the result of talks and conversations with men who have similarly thought on the problems of money. All these have their pet theories which they advance with the cocksureness of the manufacturer of patent remedies for incurable ills, and their wide popularity is certainly evidence of the

growing conviction that the orthodox methods of doctoring cannot cure the ills with which the world is now afflicted, and of a willingness to escape from them to the ills they know not of. But the expert, however, serves one useful function. He generates ideas for people to think about and discuss them with the same freedom with which they are advanced; and it is by such discussion that any true progress can be made especially in the incomprehensible science of money.

It is, therefore, very appropriate of Mr. Cole to have invoked the aid of a body of Oxford economists to tell the lay world what everybody really wants to know about money. Himself an Oxford economist, and an intellectual among the Socialist group of thinkers, it has been possible for him to summon for help eight other Oxford men whose contributions on all the aspects of money have one common purpose. And that is to find out how it is that its laws which have been made familiar to us by a succession of economists from Jevons and the institutions connected with it which have been popularised by men like Walter Bagehot, should afford no solution for the problems that confront us at present and why they should grow more perplexing the more we try to grasp them. Indeed, the science of money as understood by men of the last generation is widely different from what we know of it now. The laws were very simple then. Anybody who had an ounce of gold could take it to the Bank of England and have at once £3-17s.-9d. or by giving £3-17s.-10½d. could get an ounce of gold in exchange. The Bank of England issued notes with a cent per cent cover in gold

except for a trifle in fiduciary reserve. And anybody who had a £ could get 4.8657 dollars in exchange if he had to remit it to the United States. Public debt was limited and the Banks did business on safe lines with a proper and judicious reserve on their time and current deposits. All that is now changed. Pounds and dollars and similar names once in use when there was a metallic standard are only mere names. They have ceased to have any metallic basis. It is bits of paper with those high-sounding names that circulate and their internal value is dependent upon their manufacture and supply and their external value is dependent upon the balance of the country's external trade.

How is it that the world has been deprived of any metallic standard and why are bits of paper with their bastard names functioning as money? After all, the function of money is to deal with prices. The importance of prices is so great that some have even considered Economics to be only a science of prices. How is it that the prices of all commodities and especially the primary commodities of agriculture have shown such a considerable fall? Are the institutions dealing in money working on proper lines or is there a clog anywhere? What is to be the relationship between them and the Government as representing a large body of tax-payers and users of money? What is the policy which the bankers and the Governments ought to pursue,—stabilisation of prices either at the current or any other level or stabilisation of the exchange value of different currencies, about which a fierce controversy exists between orthodox economists

and their critics? Or should a different policy be pursued? Again, what steps are to be taken for the fruitful utilisation of the annual savings? Should it be left to the will of the issuing houses who are promoting the formation of companies or should the Government interfere and regulate investment of new funds through any public organisation like a National Investment Board? And, lastly, what is to be the policy with regard to the public debts which are now the practical ruin of every country? These are the problems to which nine Oxford economists have addressed themselves in this compendious volume and one may safely say that if their views do not go so far as those of the accepted heretics already referred to they yet raise issues which the professed orthodox pandits cannot agree to.

The causes that have led to the failure of products to keep up to their price level are well-known and it is not disputed that they are purely monetary. (The cessation of foreign lending by the United States, especially to Germany by which the latter was making reparation payments, the collapse of the German financial system thereby, the withdrawal of short term deposits from London driving England off the gold standard, are now admitted to be the causes for the world slump which almost seems irrecoverable.) It is argued that this condition of things will always follow the introduction of a gold standard or any international metallic standard. Whether you seek to stabilise prices or stabilise money, with a gold standard, which means the drain of the metallic resources to correct the balance of trade, it must inevitably lead in a capitalistic system with in-

creasing mechanised methods of production, and therefore reduced use of man-power, to unemployment, falling wages and insufficient consumption of goods. The policy which will more rapidly eliminate severe fluctuations and preserve the level of productive efficiency for the longest period of time will be one which looks to the stabilisation of money incomes rather to the stabilisation of any other element in the system, says Professor Durbin ; and he comes to the conclusion after showing how attempts to stabilise prices or money are inherently impossible of success. "It is impossible either to continue the inflation which the issue of the original credits has induced or to stop the inflation without causing a collapse in the whole structure of incomes and investment that has been built up on the expectation that the monetary expansion will continue. This is the inherent difficulty of stabilising prices." "If the volume of money is kept constant, prices will fall, not only because productive efficiency is increasing but also because the income received by the consumers is tending to fall. Now, it is my firm conviction that this second source of declining prices is directly opposed to the interests of monetary equilibrium." The alternative conducive to internal equilibrium would therefore be a number of self-contained monetary systems with constant incomes in their own currency and slowly fluctuating exchanges to adjust changes in commercial relations between them. In this plea for free exchanges there is practical unanimity among the authors.

It is not possible to summarise the arguments advanced by these economists in this short notice and



the reader who is anxious to follow the trend of the argument must be advised to go through the book carefully; but the plea they put forward for a national economic and monetary policy with free exchanges, which will not as in a gold standard keep the internal price of any country a slave to the world price level, but regulate it according to its economic condition, deserves careful consideration. There is no need for partly developed countries to have a currency system similar to the system in a fully developed country. If they have their own systems which would supply to the people sufficient national currency to suit their economic condition, maintain a certain price level and bring the productive resources into full play, it is immaterial to them what monetary systems other countries develop. With a gold standard or any other metallic standard operating in two countries imports will be reduced not by reducing prices and money rates all round, but by causing unemployment by deflationary pressure, which is its greatest defect; but when there is no fixity in the value of a country's currency and hence no fixity in the price level of its imports, changes in its foreign trade position exert no direct influence on the relative prices of imports and exports. "If a country's foreign trade position degenerates when it is off gold, the level of its foreign exchanges declines. The direct effect of a fall in the level of the exchanges is to raise the price of imports to the home consumer and to reduce the price of exports to the foreign consumer, by exactly the same percentage. The movement in the exchanges must continue until an equality in the value of imports and exports in the

widest sense is brought about. Consumption of imports has been reduced not by the general and difficult process of income reduction, but by the swift and automatic change in the level of import prices. This is the great advantage of free exchanges." This line of thought may profitably be pursued both by those who want a national currency for India and by those who are adherents to our currency being linked to sterling or any other inconvertible paper currency. By linking our currency to sterling, we marry our monetary system to that of a more developed country, exposing the price level and the economic condition of our people to the vagaries to which the sterling has exposed the people who have it for their currency. If we had a national money—the "honest rupee"—its volume can be regulated to the economic life of the people and the credit policy can be controlled to suit our agricultural and infant industrial requirements, which is our main concern; and the value of our imports will equal the value of our exports, at a price determined by what Professor Cassal has called the purchasing power parity; and there need be no unemployment with a constant consumers' income.

If the monetary policy of the country is thus to secure stable money incomes, whatever effect productive efficiency may have upon the internal price level, and if the productive resources are to be fully employed i. e., to say, if there is to be an economic planning, one necessary step will have to be taken, and that is to plan the monetary policy of the country. There can be no economic planning without monetary planning. One is the complement of the other. The credit policy of

every country ultimately rests upon the Central Banks. The control exercised by the Central Banks which are the note-issuing authorities over the Joint Stock Banks which distribute the credit so created to credit-worthy persons, may vary in each country; but there is no doubt that upon them lies the heavy responsibility of regulating credit by the issue of currency. Since the war, Governments have begun to take increasing interest in their work and as Mr. Cole has well said, it is no easier for banks and Governments to separate their spheres of jurisdiction to-day than it was in Mediaeval Europe for Pope and Emperor to live side by side without clashings of authority. Banking is the key industry and as such the Banks must be under public control if they are to discharge their functions properly. Mr. Cole puts in a powerful plea for the socialisation of Central Banks as publicly-owned corporations "using a capital owned by the State and administered by persons nominated in the last resort by the State", so that the "ultimate control of matters of high policy should rest with the Government, but the detailed administration of this policy be free from Government interference in the hands of those appointed to control the affairs of the Bank." The Labour Party's recent policy is further not only to vest the appointment of the Board with the Government but also the power of dismissal of its members and to appoint a Minister of State responsible for the affairs of the Bank. Its advantages are thus set out by Mr. Cole: "If a country were on the gold standard, or on some similar international standard effectively pegging the exchanges within narrow limits, its internal

policy in the issue of credit would clearly have to conform to the requirements of the international standard. It would be in a position to manipulate the supply of credit only to the extent to which it could do this without upsetting the exchanges. This is the ultimate condition which applies to any country which adopts a metallic standard for its currency, and allows free conversion of its currency into metal, and free export of precious metal; and no socialisation of the Central Bank can possibly alter this fundamental condition of adhesion to gold standard. If, on the other hand, countries are off gold and their exchanges are left free to fluctuate in accordance with the policies pursued by their own and other Central Banks this limitation disappears. The freedom of the Central Bank to expand or contract credit is then conditioned not by the effects of credit policy on the movements of gold, but by the considerations of the internal price level and its relation to the price-levels prevailing in other countries, and also of the effects of relative currency fluctuations on international debts of every sort and kind." The recommendation of these Economists is, however, not limited to the socialisation of the Central Banks, but of the deposit banks as well.

The United States is the first great country which has socialised its Central Bank. The Federal Reserve Board is practically a Government organisation. It is a non-profit-making concern whose policy is definitely directed by considerations of public advantage. And its President is the one statesman who is taking advantage of his position to plan an economic policy based on

a sound monetary policy. The experts who were chagrined at him for throwing a damper upon the conditions on which alone they wanted the World Economic Conference to function, may not be long to recognise the true scope of the all-round policy which he has laid for his country and without recognising which, he said, he would not be a party for the work of the Conference. The President has begun a comprehensive plan of recuperation by raising wages, advancing loans for industrial and agricultural enterprise and limiting hours of work. The State control of the conditions of labour, of wages and of prices by going off the gold standard, has been definitely embarked upon in a country where the accumulation of private wealth by individual efforts has been colossal. There may be serious impediments on the way as the President has been finding; but the experiment is worth making. And if it succeeds, there will be a terrible setback to the theorists who believe in the fixation of the exchanges a sure ground for the advance of international trade, and of progressive accumulation of wealth. Those, however, who are anxious to secure internal economic development and the increasing utilisation of all productive resources for the benefit of the community at large do not, like these nine Oxford Economists, believe in gold as their only God.

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