

A NOTE ON

# THE RISE OF PRICES IN INDIA

*(Being a review of the report of the Price:  
Enquiry Committee)*

BY

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## A NOTE ON THE RISE OF PRICES IN INDIA,

IN the year 1905 the general level of prices began to show an upward movement which has been kept up till now and which also promises to continue for some more years in the future. The year was not a particularly bad one. There was a partial failure of monsoon in some parts of the country—ten British districts and several states in the Rajputana having been declared to be affected by famine—and in February 1906 less than 400,000 men were in receipt of famine relief. The next year there was a recovery of the monsoon and agricultural conditions showed signs of distinct improvement. And yet prices did not begin to fall off. They reached the culminating point in 1908. The Finance Member of the day admitted that the course of the monsoon during the autumn of 1907 bore some resemblance to those of 1896 and 1899, but that on the whole the failure of the rains was less extensive and the resultant distress both more restricted in area and, with some local exceptions, less severe in intensity than on those occasions. And yet while the index numbers stood at 121 and 122 in 1897 and 1900 respectively compared with the quinquennial average of 1890—94, the general average rose to 143 in 1908. Although there has been a fall since then it began to rise in 1912 and there is no evidence that it will abate. It took the Government of India five years to appoint a Committee to enquire into the causes for this sudden and phenomenal rise; for the Committee was appointed only in the year 1910. It took the Committee three years to submit a report and another year again for the Government of India to publish the report. And the object of this paper is to see whether we are any the better, after ten years of patient suffering, as to our knowledge about the causes for this phenomenon.

*When prices began  
to rise.*

*The appointment  
of the Committee.*

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*Mr. Dutta's Report.*

Before doing so, a word of acknowledgment is deservedly due to Mr. Dutta and his colleagues for the manner in which they have done the work. The Government of India rightly declare that whatever view may be taken of the conclusions reached in regard to individual issues arising out of the terms of reference—some of which inevitably involve controversial points of economic theory—the report as a whole must be recognised as a very valuable contribution to the recent economic and financial history of India. With this verdict most persons who have read the report would be disposed to agree. Indeed, we may hazard the conjecture that the conclusions to which Mr. Dutta has arrived might have varied if only official statistics had been more complete, and trustworthy and unofficial statistics could be collected more leisurely and by a larger body than a committee of three. Mr. Dutta had necessarily to pay flying visits to different parts of the country and it was notorious that in the matter of the collection of materials from competent witnesses, not much help was given him. From the first, rightly or wrongly, the Committee was suspected as having been appointed solely for the purpose of registering the foregone conclusions of the Government of India and not many were willing to respond when question papers were sent in advance by the Committee for their answer. Witness the multitudinous crowd of men, known and knowable to fame, that rushed headlong to the portals of the new Council Chamber when the Public Services Commission came to Madras to apprise them of their views, and the comparative obscurity to which Mr. Dutta and his colleagues had been consigned when they had come to Madras. It was the same story everywhere, for high finance is the *bête noire* of the crowd. Further too, there was the impression that the Committee was only preliminary to a Commission which was to go thoroughly into the question if, as a result of the report of the Committee, the need for a Commission was felt. Anyhow, to say that the report might have been different is not to detract from the need of praise justly due to Mr. Dutta and his colleagues.

I

The Committee was called upon to enquire into the actual rise in prices during the fifteen years preceeding the date of its appointment; whether it had affected all prices or only food grains; whether there was any difference in different localities; to what extent it was due to internal causes and to what extent to external causes; whether it was a permanent or a temporary feature; and also into its economic effects on the country as a whole and on the different sections of the community. The report gives satistical information as to the course of prices since 1890, the basic period for calculation being the quinquennium 1890—94. A ten year basic period was suggested by the British Association but it was difficult, says Mr. Dutta, to find any series of ten years which was comparatively free from abnormalities. For the purpose of measuring the rise in different localities, Mr. Dutta has divided the country into twenty four centres of economic homogeneity, remembering the late Sir Robert Giffen's criticism before the Gold and Silver Commission of 1888 that only when index numbers are framed for fifty groups of places instead of one for all India that one can have basis for arriving at interesting conclusions. As between the different centres there is undoubtedly considerable divergence in the rise of prices, for taking the years 1908—12 Mr. Dutta says that while the average for the whole country was 138 or 38 per cent over the basic period of 1890—94, in some places the increase went up to 49 per cent and in others it did not go beyond 26 per cent. But with the linking up of markets by railways, he admits, the variations between circle and circle and district and district, are very much less than formerly and greatest in places most remote from the ports and in areas which are more or less liable to famine. Whenever there has been a famine in any part of India, the price level of all circles has risen more or less, the rise being, of course, greatest in the areas actually affected by famine. So that, while the division of India into so many centres of economic homogeneity has lost much of its point, it

*The terms of reference.*

*India divided into 24 centres.*

*Variation in prices in the centres.*

*It is less now.*

will lose still more as means of communications improve.

*Variation in price  
of commodities.*

While there has been admittedly a want of uniformity in regard to the divergence of the prices in different localities, there has been no less divergence in the variation of the prices of the commodities themselves. The commodities have not shown a uniform improvement. During the quinquennium ending 1912, hides and skins have increased by 59 per cent, oilseeds and oils by 45 per cent, food grains, pulses and cereals, by 43 and 42 per cent respectively, other articles of food by 29 per cent, cotton and jute by 33 and 31 per cent, metals by 20 per cent and sugars by 9 per cent only. If the prices of all commodities have risen uniformly instead of their showing considerable variation, the cause for such variation can be assigned without any difficulty whatever. But it is the wide divergence in the increase that has led people to suspect whether it may not be due more to causes that operate in bringing the commodities to the market than to causes affecting the medium of exchange. That to some extent the former set of causes have operated may be conceded even by those who think that it is really the production of gold during the last few years that is responsible for this phenomenon. Sugar, for example, has not shared in the general increase, it having risen only by 9 per cent; and that may be accounted for by the large production of the commodity outside this country, the world's production having increased by 66 per cent over the average for the quinquennium ending 1899. The price of hides and skins, which has risen highest, is dependent upon the supply which cannot cope with the demand. To what extent then the cost of bringing the commodities to the market to cope with the demand is responsible for the rise in prices and to what extent it is due to the production of gold is the problem to which we have to address ourselves.

## II.

*Mr. Dutta's classification of the causes.*

Mr. Dutta divides the causes into two sets, those that are peculiar to India and those that are due to what he calls world-factors. For obvious reasons we

do not propose to follow his classification. He refers to the contention that has been made in certain quarters that it is the new coinage of rupees during the last decade that accounts for the rise in prices in dealing with the first set of causes and dismisses it as not being sound. While dealing with the second set of causes, namely, world-factors he does not minimise their importance. The world-factors are none other than the increased production of gold and a consequent increase of credit. He refers, of course, to the wastage of war, the influence of trusts, cartels and other forms of trade combination, the expenditure on luxuries, the mobility of capital that seeks fresh fields and pastures new and the extension of means of communication. But these are at best subsidiary causes, while some of them, as for example the growing investment of capital in new countries and the development of means of communication there, are due mainly to the large funds made available by the fresh supply of gold. It is to the production of gold, and the consequent enlargement of the volume of credit that Mr. Dutta attributes chiefly the upward movement in the price level. But he forgets the apparent inconsistency in holding that the volume of currency in India has not increased prices. A clear knowledge of the mechanism of Indian exchange would have shown him that with a gold standard here and increased prices in Europe the volume of currency cannot but increase in India, and that if Indian prices are to rise, it must only be by the expansion of the rupee currency, which, after all that is said and done, is still the chief currency in India. Mr. Dutta came to the conclusion that the world's supply of the principal commodities of consumption, of food-grains, cotton and sugar has not fallen short of the demand and quotes a large number of economists as to the effect of increased gold supply on prices. The consequence of an improved price level in Europe must be to stimulate our exports which must be paid for in gold, and part of this gold is presented at the Banks and Treasuries for rupees. And as the Government of India have bound themselves by law to give 15 rupees for every sovereign the mints must work, as they have been

*why not approved.*

*An inconsistency.*

working, overtime. The people who receive these new silver rupees are so many people who enter the market with additional funds, so to say, and if the quantity theory holds even with all its limitations, they must raise prices. Would it be possible to maintain in India the present price level if a hundred crores were melted down to-morrow?

*Sir David  
Barbour's views.*

We cannot do better in this connection than quote from Sir David Barbour, an eminent Economist and ex-Finance Member of India. In his recent book, *The Influence of the Gold Supply on Prices and Profits*, he says: "India uses the rupee, which is a token coin of full legal tender, and also makes use of credit in many transactions, and practically does not use gold. An increase in the production of gold, and any consequent increase in the quantity of gold money, cannot directly affect Indian prices, but such increase can affect prices in countries which use gold, and credit based on gold, and under the operation of economic laws any consequent increase in prices is automatically extended to India, so long as India continues to maintain the Gold Standard. The rise in prices outside India, due to the increase in the quantity of money, destroys the equilibrium in the exchange of commodities for commodities, and creates a balance of trade in India's favour which causes the exchange value of the rupee to rise above the fixed rate of 1s. 4d., and brings about, under the system now in force, an addition of rupees to the Indian currency, which, in its turn, causes Indian prices to rise."

*A more natural  
division.*

It is scarcely too much to hope that Mr. Dutta would have recognised the fallacy of his argument if he had not divided the causes into internal and external ones, but had adopted a more natural division, namely, causes that pertain to commodities and causes that pertain to currency. By treating the effect of the volume of Indian currency independent of the volume of the circulation of gold and the expansion of credit due to it, he has failed to take a true perspective of the effects of currency on general prices, at all events in India. From the statistics that Mr. Dutta has compiled as to the rise of prices in the principal countries of the world, it would seem

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that whether compared with the average of 1890—94 or 1894—98, India tops the list. Prices have been highest in this country while they are lowest in New Zealand and next to it, the United Kingdom. Compared with 1894—98 the rise in Indian prices has nearly doubled the rise in the United Kingdom, which may be taken as the standard, as it is essentially a free trade country and as there the baneful effects of protectionism in raising prices are absent. It is natural that Mr. Dutta should conclude therefrom that the production of gold alone cannot account for the variation of Indian prices and that the causes must be looked for deeper than that. We shall therefore deal with them first before we proceed to discuss the effects of the Indian monetary standard upon the rupee prices.

*Indian and European prices compared.*

### III

The first and the most important cause that Mr. Dutta gives is the shortage in the supply of agricultural products and raw materials. This shortage may be accounted for by the following factors to which he refers, namely, growth of cultivation not keeping pace with the growth of population, unseasonable rainfall, substitution of non-food for good crops, inferiority of new lands taken up for cultivation, inefficient tillage on account of dearness and scarcity of plough cattle and labour and decreased productive power of the soil. It is needless to say that here Mr. Dutta refers to a question of considerable importance and his report as well as the review of the Government of India thereon bearing on this branch of the subject, show completely how absurd it would be to draw any conclusions based upon the figures that the Government of India have cared to maintain or Mr. Dutta has been able to collect. In order to find out whether the food supply of the country is sufficient to cope with the demand, it is a matter of absolute necessity that there should be accurate statistics available as to the acreage under cultivation, the annual yield of crops and the annual growth of population. There is no use drawing conclusions when the figures are unreliable and untrustworthy. It is rather regrettable that after more than

*Shortage of supply.*

*Inaccurate statistics.*



half a century of settled government under the Crown, the Government of India should yet profess inability to give an accurate account of the area under cultivation. Mr. Dutta complains that the acreage under cultivation are more or less defective in most of the provinces and that the figures he has appended should be taken with many limitations and the net result indicated by them corrected accordingly. He confesses his inability to prepare from independent sources new estimates of the actual extension of cultivation with any pretence to accuracy. He has therefore made rough corrections to the existing figures and deduced from them the extent of the growth of cultivation. The Government of India do not deny this charge, but admit that for the immense areas of Bengal, Bihar and Orissa, for about one-third of the Madras Presidency, for the hill-tracts in the united Provinces and in Assam—and, it may be added, for the Native States, which, though excluded by Mr. Dutta, cannot legitimately be ruled out of account—neither the area under cultivation, nor the area under foodgrains is known with any accuracy; and that for such areas Mr. Dutta had no alternative but to base his statistics of cultivation on more or less arbitrary assumptions.

*An official admission.*

We confess to a feeling of sympathy with the Government in their disapprobation of basing conclusions on arbitrary assumptions; but have they done better? In para 135 of his report Mr. Dutta makes considerable corrections as to the area under cultivation and concludes from the estimates that he gives that compared with the quinquennium 1890-91 to 94-95 it fell by 4 per cent in the next quinquennium, but rose by 1 and 2 per cent for the quinquennium ending 1904-05 and 1909-10 respectively. It rose again by 6 per cent in 1910-11 and fell to 3 per cent in 1911-12. Admittedly it is all guesswork. He then proceeds to give estimates as to the total crop. The estimates are given in lakhs of maunds and pounds, but how he got those figures and how far they are even approximately correct, is not clear. Mr. Dutta himself admits that these figures cannot be taken as accurate. The circle outturn is got by multiplying the circle area by the circle normal yield and which

*Mr. Dutta's corrections*

*all guesswork.*

again by the circle percentage of the year's crop to normal. The circle area is not certain; the circle normal yield and the circle percentage of the year's crop to normal is purely guesswork. The spectacle of the village Karnam recording estimates from his pial, of the Revenue Inspector checking the return from the village choultry and of the Deputy Tahsildar endorsing it from his horseback or bullack-cart is not uncommon. Mr. Dutta admits that the estimates do not go far enough at either end of the scale. And the Government of India endorse his view. The following may not be complimentary of the army of revenue officers who represent the Sirkar, but is eminently true: "The normal yield per acre, the foundation of all such estimates, are notoriously untrustworthy. These yields have been revised from time to time—there has been some revision even since Mr. Dutta's report was written—but the figures are still far from satisfactory, and the Government of India have had for sometime under consideration the substitution of a more reliable agency for the conduct of the investigations from which the yields are ultimately derived. The remaining factor in the calculation, the percentage of the yearly outturn to the normal is a still more uncertain quantity, resting as it does on district returns, which are little more than loose conjectures vitiated in particular by a distinct bias in the direction of under-estimation. Finally, the whole mass of material, comprising elements of every degree of validity, has to be reduced by a complicated process of averaging and weighting, and it is evident from a study of the detailed results that here, too, considerable further difficulty has been experienced and divergent methods employed."

It is thus clear that in regard to the vital question of the growing pressure of population on the soil there are two important elements of error that have to be corrected before any rational conclusions can be drawn, namely, in the total area under cultivation and in the outturn of the crops. The Government of India hope to circumvent the difficulty by taking into account only those tracts for which relatively accurate returns are procurable viz., parts of Assam, the United Provinces exclusive of the hill districts, the

*The Government on  
their officers.*

*Elements of error  
in Mr. Dutta's con-  
clusions.*

*Government of  
India's device*

Central Provinces and Berar, the Panjaub, the North-west Frontier Province and the Bombay Presidency; and conclude therefrom that the area under all crops as well as the area under food crops keep pace with the growth of population in those tracts. It may be that the area under cultivation is more reliable in these places, but where is the guarantee that the yield is proportionate all over India for the total acreage under cultivation? It may even be that whereas there has been growth in the area under cultivation in these places, there might have been contraction elsewhere. The Government point out that in recent years irrigated areas have expanded to a considerable extent and that therefore the outturn of food crops must be proportionately greater. But the question is again not so easy of solution. It may be that the richer fields have all been taken up in the cultivation of commercial crops, and even though new lands may have been brought under the plough, and more lands may have been irrigated, the total output of food crops might be smaller.

*how unsatisfactory.*

*Shortage of food-supply not proved.*

But all such speculation may be obviated by the fact that from the statistics that Mr. Dutta gives in para 280 of his report it seems that only in eight out of twenty-two years that India had to requisition rice from abroad, chiefly Burma, and since 1905 imported rice only for four years. We do not know why Burma should be excluded from the enquiry; it is so near India and it is the chief country which makes good the deficiency in the supply of rice whenever rains fail in British India. And when Burma rice is imported it is so cheaply sold that it cannot but compel one to arrive at the conclusion that the shortage of the food supply in India cannot be an adequate and effective cause for the phenomenal rise in the price of food grains. It may be remarked too that the net imports of rice in the four years 1906-10 is .8, 1.3, 2.5 and 1.8 per cent respectively to the total production as estimated by Mr. Dutta. And the deficiency was invariably made good from Burma. But the rupee prices of rice rose in those years by 45, 61, 38 and 22 per cent respectively. It does not look, therefore, that any

*Import of rice and prices.*

deficiency in the necessary supply for internal consumption can have raised the prices at all events of rice. Further, when the deficiency was only 0.8 per cent the price rose by 45 per cent and when it rose to 1.3 per cent, the price rose by 61 per cent, whereas when the deficiency rose to 2.5 per cent the price showed an increase of only 38 per cent and when it fell again to 1.3 per cent as in the year 1907-08, the price showed an increase of only 22 per cent. There is no connection in the price level of the two years 1907-08 and 1909-10, when the deficiency was the same, as the price rose to 61 per cent in the former and only 22 per cent in the latter year.

#### IV

We are compelled therefore to dismiss the plea of the deficiency of food supply as not being proved. It is in the language of the lawyer unproven. But what has been said by Mr. Dutta is enough to compel a thorough and sifting enquiry into the whole question of agrarian resourcefulness. The need for it is further emphasised by his remarks on some of the causes that he considers to have been at the bottom of the rise in prices. He considers that the effect of the increased cultivation of the commercial crops on the food supply of the country has been that the best lands available are applied towards their cultivation, while the cultivation of food grains is relegated, to some extent, to inferior lands, the yield of which even in normal years is much less. If there is a growing transference of the rich lands from the cultivation of food grains to commercial crops it follows that there must be a diminished supply of food-stuffs. But it has not to be forgotten that the effect on the price of food-stuffs cannot be very serious. Mr. Dutta himself admits that rice and wheat are commodities which are easily imported into India and if the commercial crops are more paying, the cultivators can import the necessary food-stuffs from abroad and yet make some profit. Such importation need not raise prices of food-stuffs to any alarming extent as they have been raised of late for the deficiency can be made good from abroad.

*An economic  
enquiry needed.*

*The shortage of labour.*

*Mr. Gait's denial.*

*People getting back to the land.*

Mr. Dutta also refers to the growing industrialisation of the country, the opening of new railways, mills and factories, the construction of canals, roads and buildings on a much larger scale, which have increased the demand for labour considerably. The supply has not grown, he says, in the same proportion. But the Census Commissioner does not seem to agree with him. Mr. Gait says that as compared with 1901, the number of landlords and cultivators combined has risen from 155 to 175 millions in 1911. The rate of increase has been 13 per cent or double that of the general population. Although the result may be due to changes in the method of classification, Mr. Gait says that there is no doubt that the number of persons who live by cultivation is increasing at a relatively rapid rate. On the one hand, the rise in the price of food grains has made agriculture more profitable, while, on the other, the profits of various artisan classes have been diminished, owing to the growing competition of machine-made goods, both locally manufactured and imported, with the result that these classes show a growing tendency to abandon their traditional occupation in favour of cultivation. Mr. Gait perceives a distinct movement of the population back to the land and if so, there can be no scarcity of labour as Mr. Dutta contends.

*Impoverishment of land.*

Further, Mr. Dutta quotes a number of officials to the effect that there has not been any deterioration of the soil. He says that the worn-out soils in India have long since reached a stage of more or less maximum impoverishment and that the average crop outturns in so far as they depend on the fertility of the soil have been in a more or less stationery condition for many years. This again is a matter of vital importance deserving of careful scrutiny, for if the stage of maximum impoverishment has been reached, the inference will be that further deterioration will not be possible and while erroneous conclusions about possible food supply will be drawn, the State demand will continue to be more pressing and exacting, should there be any indications, real or fancied, of the revival of agriculture.

VI

There are one or two other causes to which Mr. Dutta refers to which attention may now be drawn. He says that during the last few years there has been large improvement in the standard of living in particular areas. The cultivation of commercial crops like jute and cotton has brought more money into the pockets of the cultivators and this has enabled them to raise their standard of living by purchasing more of the food they relished most. But it has to be understood there is a limit to the consumption of articles of food: The increase cannot go on indefinitely, and the people who have shared in the higher profits are confined to particular areas. Articles of consumption such as fish, vegetables, ghee and meat in those localities might rise in price, because they cannot be sent to long distances. There can be justification for the rise in their price to some extent in those areas where the standard of living of the people has risen, but it is a different question altogether when general prices all over India rise to an alarming extent as they have been doing at present and in places where commercial crops are not grown. And in order to find out further whether there has been really any change in the standard of living so as to affect large communities, an economic enquiry of select villages seems to be necessary and there is no use drawing conclusions from *a priori* reasonings.

Mr. Dutta refers to the expansion of communications, both railways and roads, as another cause for the rise of general prices in India. That during the period under enquiry internal communications have developed admits of no doubt; but what has to be doubted is how they can have raised prices. The only possible effect of the development of communications is to level down prices. Mr. Dutta says that "before" railways were constructed the cultivators derived little benefit from an abundant harvest. His markets were confined to a small area; and if the supply was greater than the demand, as it would be in a good year, prices fell and he lost the profits from the larger yield and sometimes found it more economical to leave part of his crop uncultivated. This seems

*The rise in standard of living*

*cannot account for general rise of prices.*

*The expansion of communications.*

to be a most amazing statement to make. Why it should be profitable to the cultivator to leave the crops, in the cultivation of which he has spent much labour and money, uncut, he does not say: it seems to be so much incredible and against human nature. But it is the spirit in which Mr. Dutta's conclusions have been drawn. The effect of the development of communications is to transfer surplus produce from one part of the country to the other, thereby preventing local fluctuations of prices. But to steady prices is a different thing from increasing prices. Local variations might disappear; but there cannot be an all-round rise in prices. Even in regard to the question of steadying prices, there is an interesting question whether, before the introduction of railways in particular areas, there prevailed customary prices or competition prices. If custom regulated prices instead of competition, as they invariably do in self-regulated village communities, there could not have been violent fluctuations in the pre-railway era and the laying down of railways could not have steadied prices, so to say. Mr. Dutta has ignored the question altogether and does not say whether customary prices were a principal feature of village organisations and, in the absence of information regarding the extent to which custom and competition have influenced prices in village communities, we cannot attribute to the extension of internal communications any remarkable influence even in steadying Indian prices.

*Customary and competition prices.*

*The reduction of freights.*

On a par with this is his reasoning about the influence of the reduction of freight in raising prices. Any reduction in transport charges must only reduce prices. And if Indian prices of commodities exported to foreign countries have approximated to foreign prices and risen since the reduction in freights, such rise is not due to the reduction in freights, but to the growing demand of foreign countries, which is a different thing altogether. Nothing can be more absurd than to say that the opening of the Suez Canal and the consequent reduction in transport charges increased prices or that the opening of the Panama Canal is likely to do so. Mr. Dutta's reasoning seems to be that prices in exportable com-

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modities in the ports rise in sympathy with the prices in foreign countries, which again affect prices in the up-country. If the price of wheat is taken into consideration a rise in Mark Lane would raise the price in Karachi, where the rise would be greater if there is simultaneously a fall in the freight from Karachi to London. Only, Mr. Dutta forgets that Mark Lane would not pay the same price to Indian wheat when the freight falls as it did when the freight did not. It is crediting it with too little business instinct, especially when India produces only ten per cent of the world's wheat and only twelve per cent of Indian production is imported into Europe and which is also of inferior quality.

### VII

We shall proceed then to the next set of causes that relate to currency, because no satisfactory clue can be afforded by the causes that operate upon commodities for the heavy and unprecedented rise in the general level of prices. There has not been any unusual diminution in the supply of commodities internally; the imports of such as are stated to have diminished in production belie that contention. It has to be noticed that there has been an increase in the price of all commodities, raw and manufactured, those that are subject to the laws of diminishing return and those that are subject to the laws of increasing return. If there are any principal group of commodities which have fallen in price or which have stood steady there might be some truth in the plea that the operative cause has been confined chiefly to commodities. But no, the price of every commodity has risen and there is no reason to believe that the demand for them all has made an upward bound or they have all fallen in production. There should certainly be stronger evidence than is available to compel such a conviction. We are therefore disposed to agree with the Government of India in the view that the explanation of this remarkable phenomenon cannot be found in changes of an internal nature. An examination of the statistics of prices in other countries indicates clearly that the increase in Indian prices has been broadly synchronous with a

*Causes relating to currency only clue.*

*Indian prices synchronise with European prices.*



general upward movement in price levels throughout the world, and that its origin must accordingly be sought in causes more or less common to the whole civilised world, though nowhere have prices reached such a high level as in India.

*The effect of gold  
production.*

*Investments abroad.*

*Accumulation  
of Bank reserves.*

Mr. Dutta does not ignore this aspect of the question. In fact he lays considerable stress upon the influence which the production of gold has had upon trade and industries. The large output from the mines has stimulated industry and trade throughout the world and when older countries find that there is no sufficient need for the spare capital at their command they send it abroad to newer and less developed countries. The exportation of such capital to foreign countries is growing apace and according to Sir George Paish during the three years 1908—10 the United Kingdom exported capital to the extent of 516,861,000*l* or twenty per cent of the total capital of 2,675,139,000 *l* which was invested up to 1907. The stimulus that the production of gold has given to the expansion of credit and to the investment of funds both locally and abroad is certainly remarkable. Of course, all the gold that is dug out of mother earth is not forced into circulation or compelled to serve the purpose of money. A considerable portion of it, variously estimated at between 50 and 60 per cent, is consumed in the arts; and India and Egypt have had more than their share and have either hoarded the metal or sent it to the goldsmith's crucible. All the same, the Banks have considerably augmented their reserves and it is the reserves in the banks that count in raising prices by stimulating trade. While the reserves in the principal banks of the world were only 290,031,000*l* in 1889, and 508,850,000 *l* in 1899 they had risen to 806,856,000 *l* in 1910. Such colossal expansion of the reserves has increased the capacity of the banks to swell the volume of credit while the tendency of modern business to make assets securities for credit has increased the capacity of the trade to borrow. This development of credit and its multiplication into various forms, resting as it should not be forgotten upon a metallic basis, the reserves in the banks, stimulate and expand trade thereby increasing

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prices. We are therefore at one with Mr. Dutta and the Government of India in holding that the production of gold is a principal factor in raising the prices of commodities all the world over.

*The effect of gold  
production on  
India.*

But neither Mr. Dutta nor the Government of India seem to perceive the effect on the volume of Indian currency and the development of credit institutions based upon such volume, of the increased price level in Europe. Mr. Dutta denies that there is a redundancy of rupees in circulation. Now, redundancy is an expression which as employed by him does not seem to have any meaning. There can be no such thing as redundancy of anything; there is no fixed standard or measure for any commodity. You cannot say of anything, 'only so much shall exist and not more.' If a hundred crores of new rupees were forced into circulation, it cannot be said it would be superfluous. Only its effect will be to stimulate enterprise, develop credit and raise prices all round. There is one sense in which it can be said to be redundant and, that is, when compared with the exchange value of the sovereign. For example, rupees may be redundant at 1s. 4d. but may not be redundant at 1s. 3d. But that is not the sense in which Mr. Dutta has employed the word. He says that the Indian currency system is an automatic one and that rupees have been coined only in response to the demands of trade. The Government have undertaken to meet foreign obligations whenever called upon to do so by remittances, either by selling bills on London or by supplying gold from the reserves in this country; and as invariably the balance of trade is in our favour we are not generally called upon to do so. This tacit understanding to meet any adverse balance of trade makes the system an automatic one. Remittances can be made from India to other countries, says Mr. Dutta, in adjustment of the trade balance as freely as before and that when such remittances are made on a large scale the inevitable effect will be a contraction of the circulation of rupees. The Government of India go a step further. They say that the currency system is as automatic as it was previous to the closing of the mints to the coinage of silver,

*The redundancy  
theory*

*denied by  
Mr. Dutta.*

and that it was the increased demand for Indian commodities and the rise in prices resulting therefrom that have necessitated increased coinage.

*The currency system is artificial.*

*Rupees can no more be melted.*

*The India Office differ from Government of India.*

To put the most favourable construction upon the view so taken by Mr. Dutta and the Government of India, it can only be said that according to them it is only the external trade that matters and not the internal trade. The tacit understanding to pay sterling in England or export gold from this country to meet our obligations abroad when the balance of trade is against us, may be an admirable device to keep the artificial currency system going, but to claim for it that it is an automatic one is preposterous. An automatic currency is one which cannot be manipulated by Government, whose expansion and contraction depends exclusively upon the demands of the people. There can be expansion no doubt under the present circumstances, but can there be contraction at the desire of the people? The Government say that there is when rupees are tendered to them in exchange for gold to be shipped abroad to make foreign payments. But before the closure of the mints to the private coinage of silver, rupees were melted down by the people whenever they did not want them. That source of contraction has been cut down and inasmuch as every rupee once coined must be circulating and must depend for its contraction only on those occasions when adverse balance of trade compel Government to come to the rescue of the trade and to release or ship gold abroad, there can be said to be no contraction whatsoever. The Government of India once believed that the rupees so melted down were fifty per cent of the annual coinage, but, in view of the heavy importation of silver even after the closure of the mints, Mr. O'Connor admitted before the Fowler Committee that they had to revise that opinion and hold that a much larger percentage than fifty went to the silversmith's shop. So that, therefore, the cutting off of that source is an insuperable obstacle to the automatic contraction of the currency.

Mr. Dutta and the Government of India seem to think that the present system is an excellent one and that there is no artificiality about it at all. But the

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India Office do not think so. In a memorandum which is an enclosure to the Secretary of State's letter to the Government of India dated 18th February 1910 they enunciate the principles guiding them in supplying fresh coinage, and say that whatever estimate may be formed or used at any time as the basis of a practical decision regarding the level at which the stock of rupees in the Gold Standard Reserve and the Paper Currency Reserve should be kept, there must always be the possibility that subsequent events will so shape themselves as to show that a different decision would have been more beneficial. They add: "If a liberal view of the requirements of the two Reserves is taken and large amounts are brought and coined, trade may immediately fall off and exchange decline, rupees in the Reserves may for a long period be practically useless, and the temporary loss of the sterling resources with which they were purchased may be a serious misfortune. If, on the other hand, the more restrictive view is acted on, and the stock of rupees kept low, a sudden outburst of great trade activity may expose the Government of India to embarrassment in its attempt to cope with the demand for currency. This difficulty is one which can never be avoided." After this confession of the inefficiency of State management of currency by the India Office, it looks trifle strange that the Government of India should claim for it that it is as automatic as it was before the close of the mints to the private coinage of silver. Not only is it not automatic but the coinage has also been undertaken in a fitful manner. There have been periods of masterly inactivity as there have been periods of feverish activity. Till 1900 there was practically no coinage; but then the mints began to work overtime and it continued for years. There was a relapse again, but the activity was renewed last year. The high price which Indian commodities began to command in European markets leading to an onrush of sovereigns in the Paper Currency Reserve was the signal for the mints being thrown open again. The people craved for silver; they did not want gold; and all forcible attempts made to circulate gold failed. The Govern-

*Fitful coinage of  
rupees.*

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ment having undertaken to pay fifteen rupees for a sovereign they could do nothing else than coin silver. A gold standard had thus to be established by turning out rupees as fast as the mints could do so. But that is another story.

*Circulation of rupees and rise of prices compared.*

Mr. Dutta gives a statement of the estimated stock of rupees in circulation and currency and Gold Standard Reserves. Taking the index number of rupees to be 100 for 1903, I have constructed the following table which shows the index numbers of the currency in circulation and of prices :—

Year.		Index number of rupees in cir- culation.		Index number of Prices.
1903	—	100	—	100
1905	—	102·4	—	99·9
1905	—	110	—	108·5
1906	—	124	—	120·5
1907	—	144	—	124
1908	—	149	—	133·7
1909	—	146·5	—	124
1910	—	144	—	123
1911	—	139	—	125
1912	—	142·9	—	131·7
Average ...		133·8		121

It will be seen from the above that prices have been trying to respond to the volume of currency in India even during the last decade, and if they do not approximate to it, it is because rupee prices do not show such violent change as do gold prices. They are more or less steady and respond but timidly to the volume of currency. We are arguing upon the basis that Mr. Dutta's estimate for every year is accurate; and assuming it to be correct, the conclusion is only fair that there is a parallelism even in India, whose people are more remote from the economic man than elsewhere, between the volume of currency and the general level of prices. In part 81 of his report Mr. Dutta himself points out that during the five years which have been taken by him as the base for the purpose of calculating index numbers, the gold price of silver declined steadily.

*A close parallelism.*

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and the rate of exchange between India and England fell from 18·089 d. to 13·1 d.; but rupee prices of commodities fluctuated within moderate limits. They rose gradually six points in the first three years and then dropped three points in the next two years. Gold prices of commodities on the other hand fell in those years steadily from a level of 113 to 85 or 25 per cent. Now that India is linked with gold-using countries, the Indian prices have begun to respond to the price in gold-using countries. It may be a sad commentary upon the wisdom of giving up the silver standard to the elusive gold standard; but the penalty has to be paid and there is no murmuring.

*Silver prices steady.*

### VIII

It will be seen from what we have said above that Indian prices have risen more than gold prices in Europe and the volume of Indian currency has risen more than either. An explanation would seem to be called for. And it is not a far-fetched one. The rise of prices in Europe stimulated the export trade of India and put more money into the pockets of the people who cultivated exportable commodities. And this extra sum enabled them to consume more of manufactured articles of the West. The mints began to work overtime because of the demand for new rupees to finance the heavy export trade and this fresh capital necessarily raised prices in India as well. What with heavy prices in India and the capacity of the people to consume more manufactured articles, imports began to outstrip exports and the balance of trade in our favour began to fall rapidly and went against us in 1908. It is a coincidence that in that year both the index number of prices and the circulation of rupees stood highest, namely, at 133·7 and 149 respectively. The table I have given is an instructive study. The rupee circulation then fell down and prices also fell down till 1911; and in 1912 it went up and prices also have responded. In 1912 the Government began to coin money and it is only reasonable to expect that if they persist in that policy and force more rupees into circulation, prices also will rise. Whether we are in for another cycle of increased rupee prices, heavy imports, adverse

*The explanation.*

*Another cycle of high prices?*

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balance of trade and fall of exchange, depends upon the Government, whether they allow easing time to the mints or no. That prices have not risen in the same proportion to the expansion of the volume of currency is only what can be expected. That is due to the limitations to the quantitative theory of money. No economist can forget the force of the expression, "all things remaining the same." All things have not remained the same; but yet the economic law is working silently and the pressure of an inflated currency is being felt, though it may be convenient for some of us not to own it yet; we must own it ere long.

*Result of inflated  
currency.*

Mr. Dutta says that the volume of currency cannot have increased prices because the additional currency should have been absorbed by the growth of business and other demands for currency. He gives a statement as to the growth of business in India and points out that it has increased by 120 per cent in 1911 over the average of 1890-94; and the volume of rupees and currency notes in actual circulation has increased only by 60 per cent during the same period. Further, currency is not returned to headquarters as before, but remains in inland districts even after it has done its special work of moving harvests or relieving famines. Payments in cash have been substituted to payments in kind, which has also increased the need for additional currency. The whole argument has been vitiated by two considerations, namely, that a correct comparison of the growth of business has been taken and that no foreign capital has been imported into India during the period. As for the first, it is possible to estimate the growth of business so far as transactions with foreign countries are concerned; but it does not appear as though it is possible to take an estimate of the internal trade, apart from what is carried on by railways. Mr. Dutta gives an estimate, it is true, of the inland trade, but how he got it is not clear. The whole country is not linked by railways and there is an amount of business taking place and trade carried on by means of primitive conveyances of which the arithmeticians in the Statistical Department can give no account. A witness before the Fowler Committee,

*Growth of business*

*cannot be  
estimated.*

Lord Aldenham, estimated that the external trade was only five per cent of the internal trade. If the 120 per cent to which Mr. Dutta refers relates only to the external trade of India, it can only mean that there has been only 6 or 7 per cent more to the entire trade of India, taking that internal trade has remained stationery. That the development of internal communications has stimulated enterprise and developed trade will be admitted; but there is absolutely no evidence that both the internal and external trade of India have developed to anything like 120 per cent. The chief element of error which has to be corrected before any conclusion about percentages can be drawn is the volume of internal business which cannot be gauged from railway returns and if that is a large quantity and if that has not developed as fast as the sea-borne trade, the conclusion such as the one that Mr. Dutta has drawn becomes vitiated. A second factor to which I have referred is the large importation of foreign capital into India. I have elsewhere calculated\* that in the seven years between 1903-4 and 1909-10 we have imported at least 137½ crores of rupees; of course it is open to correction, though I have nowhere seen any account as to the probable amount of foreign capital sunk into India. If that rate had been kept up we should have imported about two hundred crores in the last decade. Surely, such an amount must have added to the productive capacity of the country and a good portion of it must be engaged in financing the trade in which foreign capitalists are interested. And that accounts too to the growth of capital and private deposits in the banks. The average of such capital for 1890-94 is twenty-five crores, while for 1910-11 it is nearly eighty-four crores. These are some of the things which have "not remained the same" and which account for prices not rising in proportion to the volume of currency.

*The importation of  
foreign capital.*

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\* Indian Monetary Problems, p. 157.