

CURRENCY AND EXCHANGE

IN

INDIA

BY

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PREFACE BY THE AUTHOR

When so much has already been written on the subject of Indian Currency and Exchange, this attempt to present a solution of the currency and exchange problem in India may appear superfluous. At least I have felt so, more often than once, while busy writing the following pages ; but somehow or other, be it due to the great importance of the subject—a subject that can well bear repetition as well as constant emphasis, when we consider its significance to the national well-being—or to the personal element of disinclination to give up an attempt after having done something, conjoined, of course, with that sense of temperamental vanity, which is a great urging factor in the academic life history of amateurs like myself, who aspire to printed fame. Be it as it may, I have taken the liberty of presenting some ideas, which I honestly believe to be capable of helping us out of the present position of indefiniteness and uncertainty in our currency policy. Whether those ideas are worth the importance that they seemed to have in my eyes, is for others to judge. I need only add that in Chapter II entitled Historical, there is very little that is my own except a few remarks here and there. Practically the whole of it, is a reproduction in most cases *verbatim*, from a number of Reports of Committees, Commissions, and the Controller of Currency in India. There are portions in it which have been adapted from Mr. Findlay Shirra's book on Indian Currency and Banking. The weight of indebtedness here is so great that I dare

not even nod to acknowledge or to thank. It seems politic to leave the various authorities unacknowledged and unthanked.

But I can not leave in the same unenviable position my good friend and colleague Mr. S. K. Rudra, M. A. (Cantab.), Reader in Economics, who has helped me a lot with his constructive suggestions. To him I offer my sincerest thanks.

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October, 1924.

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GENERAL PLAN

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Indian Currency and Exchange.

CHAPTER I

INTRODUCTORY

Without any serious exaggeration one may say that at the present moment there are two very serious problems before the people and the Government of India ; (i) the problem of Indian Currency and Exchange, and (ii) the problem of increased Revenue or Taxation. First of these formed an important, perhaps the most important, item of discussion at the last conference of economists in India, held at Bombay during the last week of January 1924, and the second is likely to engage the attention of the whole of thinking India for years to come. However here, I wish to confine myself to the first, and try to indicate the lines on which we in India should try to regulate our Currency policy.

At the very outset, I may be permitted to point out that we in this country are not fortunate enough to have a clean slate, as it were, on which we could draw any figure, that our imagination were to lay down as the ideal picture of the Currency System. We have had a system of currency, good, bad or indifferent as it be, working for a number of years, and we could not, however much we may desire, change it at a stroke to approximate to our ideal in a day. Throughout the discussions on this topic in the last Economic Conference, this point was completely ignored, and young and old enthusiasts of gold standard thundered in their speeches advocating an

instantaneous return to gold standard and gold currency with such an ease as if the road to gold currency was as unblocked as was the free atmosphere of the Bombay Senate Hall to give an unchallenged journey to their words. While discussing currency problems in India, or for the matter of that in any other part of the world, we should not (as a matter of fact we can never afford to lose sight of this limitation, if we mean business, and do not want to indulge in mere rhetoric to catch the public ear) lose sight of this limitation.

Then again the system of currency in a country is generally something of a compromise as between the ideal of economic theorists and the business needs of the country, wherein a very large part is played by what may be called the popular sentiment, and the popular prejudices. From the theorists' point of view what the system of currency in a country should, with many other things, always be able to do, in order to be classed as a good and successful system of currency is that, it should provide media of exchange suitable to the needs of the different classes of the people living within the country, *i. e.*, the currency of the country should consist of coins of such varied values and denominations, as would be suitable to perform the exchange transactions of the various groups of people in that country. From a theoretical point of view the more of these coins of various denominations, consist of paper or leather or some other cheaper material the better. But can a theorist by his mere wish, or by the dictates of his very sound logic, make the unlogical public adopt the paper coinage as the common

media of exchange in a country, unless the bulk of the people of that country have been educated in the use of paper? Or can a Government be it ever so powerful as the Government of India compel our masses to use the gold sovereign as the medium of exchange, when their standard of purchases is such as to make the rupee more convenient than a coin of much higher denomination? By no means yes! They failed to do so in their first attempt when acting on the Report of the Fowler Committee in the year 1900-01 they tried to push in the sovereign, and they are bound to fail again, so long as the standard of incomes and of expenditure of the bulk of the people is not sufficiently raised to warrant a change in that direction. It was this inherent weakness, this peculiar insistence on the part of the *Indian public*, and not of a few industrialists of the city of Bombay, to have rupees which compelled the Government of India to adopt the Gold-Exchange Standard, instead of Gold Standard with gold in active circulation as against the express recommendations of the Fowler Committee and the express demand of the vociferous educated classes of this land, who are accustomed to measure the needs of India by their own measuring rod. It was this peculiar insistence on the part of the Indian people—real people of India who live in villages, and whose monthly income, according to the most sanguine and the most optimistic calculations is not more than five rupees per month per head—that compelled the Government of India not only to depart from the findings of a Committee, which they had accepted, but also to depart from the ideal of the Gold-

Exchange Standard itself as originally conceived by that prince of theorists David Ricardo and as recommended by Lindsay before the Fowler Committee. In deference to the wishes of the people, Government had to adopt "a note printed on silver," and not a note printed on paper for internal circulation. That up to the time of the Chamberlain Commission, who submitted their report in 1914, even the Government of India had their ideal the Gold Standard backed with active gold circulation is made perfectly clear when we read Lord Meston's (then Sir James) following statement, when speaking during the budget debate of 1910 : "The broad lines of our action and our objects are clear and unmistakable, and, there has been no great or fundamental sacrifice of consistency in progress towards our ideal. Since the Fowler Commission that progress has been real and unbroken. There is still one great step-forward before the ideal can be realised. We have linked India with gold countries of the world, we have reached a Gold Exchange Standard, which we are steadily developing and improving. The next and final step is a true gold currency. That I have every hope will come in time, but we can not force it--But, the final step will come in time when the country is ripe for it." It was in pursuance of this that in the year 1912 the Government of India proposed to open the Bombay Mint to the coinage of sovereigns ; but for one reason or another the British Treasury came to their rescue, and they had to defer the proposal until the Royal Commission appointed in the year 1913 had reported on the course to be taken.

We have written enough to show that to decide what kind of currency, or what system of currency a particular country will adopt, or change to, at a particular time is not such a simple matter as our enthusiasts would have us believe, but is one of those live problems where theory and practice, reason and prejudice, commonsense and sentiment jostle each other, and where out of these conflicting forces the practical administrator has to evolve a *viva media* more or less acceptable to all. But this pre-supposes at least the presence of a definite ideal before the Government of a country. Have the Government of India had any definite ideal before them?

A satisfactory answer to this could only be given after a rapid survey of the history of development of currency policy in India, since the closing of Mints to the free coinage of silver in 1893.

CHAPTER II

HISTORICAL.

The Indian Currency System in 1892-93.—The standard coin was of one metal silver. The Indian Mint was open to the free coinage of silver ; the rupee and the half-rupee were the only standard coins and were legal tender to an unlimited amount. There was a subsidiary silver fractional coinage, which was legal tender only to the limit of one rupee. Besides these, there was paper money. Notes could be issued to the amount of 8,00,00,000 rupees against securities ; and beyond this only against a reserve of coin or bullion deposited. For the purposes of Paper Currency India was divided into eight circles. Only the Five Rupee Notes were universal legal tender, and notes of other denominations were legal tender within the circle for which they were issued.

The continued fall in the value of silver in terms of gold which began after the year 1872 caused serious inconvenience to the public as well as the Government of India, and when the efforts to bring about Bimettalic System of Currency by international agreement failed, then the Government of India, thought that it was impossible to stand aside and leave things to take care of themselves. There was the increased burden measured in rupees of the External liabilities of India, payable, of course in gold ; there were the effects of uncertainty that was introduced by the great fluctuations not only in Govern-

ment finance but also in trade finance. This led them to think of giving up the silver standard in favour of the gold standard. With this end in view they submitted the following proposals to the Secretary of State for India in their Despatch of 21st June 1892 :—

- “(1) The first measure would be the stoppage of the free coinage of silver. Government would retain the right of purchasing silver, and coining it into rupees.
- “(2) The next measure would be to open the mints to the free coinage of gold. Any man bringing gold to the mints would be entitled to have it coined into gold coins, which would be legal tender to any amount. It would be desirable to stop the free coinage of silver sometime before opening the mints to the free coinage of gold. It would be valuable guide to us in subsequent proceedings to know exactly what effect the stoppage of the free coinage of silver had on the gold value of the rupee.
- “The new gold coins may be a 10-rupee piece, and a 20-rupee piece.
- “The weight and fineness of the gold coins to be issued from the mints would be such that the par of exchange between them and the sovereign would be the exchange which it was desired to establish between India and England.

“ For example, if we wished the rupee to be worth 1s. 4d., the 10-rupee coin would contain as much gold as was worth (1s. 4d.) \times 10 = 160 pence. The quantity of fine gold in the 10-rupee piece would be $\frac{160}{240}$ ths or two-thirds of the quantity contained in the sovereign.

“ The question of the ratio at which we should exchange from the silver to the gold standard would require careful consideration.

“ We ought not to think of going back to the old ratio of 1 to 15½. Neither ought we to adopt the very lowest price to which silver may have fallen at any time, or to consider ourselves bound to accept the market ratio of the very moment at which the change was made. A ratio based on the average price of silver during a limited period before the introduction of the gold standard, would probably be both the safest and the most equitable.”

Sir David Barbour's arguments in support of the above proposals :—

He observes that, although it is proposed to stop the free coinage of silver and to establish a gold standard, it is not part of the plan to substitute gold for silver as the ordinary currency of the country. It

is contemplated that in the vast majority of Indian transactions, silver would still be used as the medium of exchange. He refers to the example of France and other nations, as showing that it is possible to have a gold standard, though a large percentage of the circulation consists of over-valued silver coins, which are legal tender to any amount. He concludes that, in order that the gold may be effective, a limit must be placed on the numbers of such coins, and they must be convertible into gold coins, either without payment of premium, or on payment of a trifling premium whenever any person wishes for gold coins in exchange for silver coins. Gold coins would only be required in exchange for silver when they were wanted for hoarding or export, or for melting down into ornaments. It is pointed out that one mode in which the scheme might be carried out would be by adopting measures for accumulating a store of gold, and when sufficient had been obtained, opening the mints to the free coinage of gold coins, that metal being then made legal tender, and the exchangeability of silver for gold coins, according to their face value, guaranteed by means of the accumulated stock of gold. This it is said would be an expensive plan, and there would be a great risk of the whole stock of gold being drained away in exchange of

silver rupees. Sir David Barbour, therefore, does not recommend this plan ; but the measures which appear to him feasible are those described in the passages from the Minute already quoted.

Recommendations of the Herschell's Committee :—

“ While conscious of the gravity of the suggestion, we can not, in view of the serious evils with which the Government of India may at any time be confronted, if matters are left as they are, advise your Lordship to overrule the proposals for the closing of the mints and the adoption of a gold standard, which that Government with their responsibility and deep interest in the success of the measures suggested, have submitted to you.

“ But we consider that the following modifications of these proposals are advisable. The closing of the mints against the free coinage of silver should be accompanied by an announcement that, though closed to the public, they will be used by Government for the coinage of rupees in exchange for gold at a ratio to be then fixed, say 1s. 4d. per rupee, and that at the Government treasures gold will be received in satisfaction of public dues at the same ratio.”

To bring the recommendations of the Committee into force the following legislative measures were adopted :—

First the Indian Coinage Act, 1870, and Indian Paper Currency Act, 1882, Amendment Act VIII, 1893, provided for the closing of the Indian Mints to the free coinage of silver, Government retaining the power to coin rupees on its own account.

The arrangements for the receipts of gold at the mints at a ratio of 1s. 4d. per rupee were made by Executive Order, and so were the arrangements for the receipt of sovereigns in payment of sums due to Government at the rate of fifteen rupees for a sovereign. Gold coins were not made legal tender and consequently nobody was compelled to receive them instead of silver rupees unless he was willing to do so.

The ratio of exchange between gold and the silver was not finally settled. The making of gold legal tender and the fixing of ratio as between gold and silver, was left to be settled later on by legislative enactment in the light of future experience.

The Bill repealed sections 19 to 26 of the Indian Coinage Act, 1870. These sections provided for the coinage of all gold or silver brought to the mints by private persons. The Bill also repealed certain clauses of the Indian Paper Currency Act of 1882. These clauses provided for the issue of notes by the Department of Paper Currency in exchange of silver bullion or foreign silver coin. Section 13 of the Indian Paper Currency Act of 1882 provided for a portion of the metallic reserve of the Paper Currency Department, not exceeding one-fourth, being held in the form of gold. So much of this section as limited

the proportion of gold was repealed. Sections 14 and 15 of the Act were also repealed, as they provided for the private persons to tender notes for gold.

In pursuance of this policy a notification was issued, providing for the issue of notes, by the Paper Currency Department in exchange for gold on the requisition of the Comptroller General.

A notification was issued authorising the public treasuries to receive sovereigns of current weight in payment of Government dues at the rate of fifteen rupees for one sovereign.

Another notification was issued authorising the Masters of the Mints at Calcutta and Bombay to issue under suitable conditions, silver rupees for gold at the rate of one silver rupee for 7.53344 Grains Troy of fine gold.

From the closing of Mints to the appointment of the Fowler Committee.

As soon as mints were closed exchange leaped up from a rate about 14*d.* to 16*d.* It was, however, immediately apparent that the advance was purely speculative and could not be maintained. The rupee currency, owing to the large speculative imports of silver and the correspondingly large issues of rupees from the mints immediately before and after the closure of the Mints, was sufficient to meet the requirements of the next few years. Besides this there were other factors which tended to keep the exchange low. In November 1893, the Sherman Act, was repealed by a special session of the Congress in the

United States of America. Thus 37 per cent. of the world's annual production was dumped on the market.

The combined result of the closing of the Mints and the refusal of America to continue to purchase silver in London on the price of silver was that whereas on the 24th of June the price of silver was 37*d.* per oz. on the 30th of June it went down to 30*d.* After this the price of silver continued to fall, but the rate of exchange began to recover during the year 1896 as per table below :

	1893	1894	1895	1896	1897	1898	1899
Average rate of Exchange.	14·546	13·100	13·638	14·450	15·406	15·978	16·067
Price of silver (pence per standard oz.)	35 $\frac{3}{8}$	28 $\frac{15}{16}$	27 $\frac{7}{8}$	30 $\frac{3}{4}$	27 $\frac{9}{16}$	26 $\frac{15}{16}$	27 $\frac{7}{16}$

In 1897 the Secretary of State for India referred to the Government of India the question whether, if the mints of France and United States of America were opened to the free coinage of silver at a ratio of 15½ to 1, the Government of India would undertake to re-open concurrently the Indian Mints to the free coinage of silver, and to repeal the Notification of 1893. In reply the Government of India expressed their "Unanimous and decided opinion that it would be most unwise to reopen the mints as part of the proposed arrangements specially at a time when

we are to all appearances approaching the attainment of stability in exchange by the operation of our own isolated and independent action." This conclusion was endorsed by the Home Government.

In January 1898 "in order to afford a means of relief to the severe stringency then prevailing in the Indian Money Market, an Act (No. II of 1898) was passed empowering the Government of India to direct by order notified in the *Gazette of India* the issue of Currency Notes in India, on the security of gold received in England by the Secretary of State at the rate and subject to the conditions to be fixed by such order. Under this Act which was to remain in force for six months a Notification was published by the Government of India on the 21st January 1898, announcing that notes would be issued, in exchange for gold held by the Secretary of State for India, at the rate of one Government rupee for 7.53344 grains of fine gold, with the addition of such further quantity of fine gold as the Secretary of State should from time to time determine to be sufficient to cover all costs and charges incidental to the transmission of gold to India. Under this notification the Secretary of State in Council gave notice of his readiness to sell, until further notice Telegraphic Transfers on Calcutta, Madras and Bombay at rate not exceeding 1s. 4 $\frac{5}{32}$ d. for the rupee. This Act was extended for a further period of two years by the amending Act VIII of 1898.

The position therefore at the time of the appointment of the Fowler Committee on Indian Currency

in India was, that gold was not legal tender in India, though the Government was prepared to receive it in the payment of public dues. The rupee was by law the only coin in which other than small payments could be made. There was no legal relation between the rupee and gold, but the Indian Government had declared a rate at which rupees could be purchased for gold coin or bullion.

The appointment of the Fowler Committee.

The Government of India in their Despatch of the 3rd March 1898, with a view to the completion of the policy initiated in 1893, submitted proposals to the Secretary of State for India to the following effect. In order to keep the exchange value of the rupee at a steady level of 16*d.*; they thought it necessary to decrease the rupee circulation so as to remove the relative redundancy. The amount to be so withdrawn was estimated at about Rs. 2,40,00,000. Within this outside limit it was proposed "to melt down existing rupees, having first provided a reserve of gold both for the practical purpose of taking the place of the silver, and in order to establish confidence in the issue of our measures." The first step was to take powers to borrow sums not exceeding in the whole 20,000,000 £, and at once to get 5 million pounds to India as a first instalment. If exchange were to remain above 16*d.* they contemplated no further step. But if, and so long as exchange stood below 16*d.* the Government of India would take rupees from its balances melt them down, sell the bullion for other rupees in India, pay these other

rupees into its balances, and finally make good the loss incurred on this transaction with part of the borrowed gold. They anticipated that one borrowing of 5 million pounds sterling might be sufficient to attain the end, because, they believed that as a result of the operation of trade gold would flow into the country and remain in circulation. But until the exchange value of the rupee was established at 16*d.* and sovereign became a permanent part of active circulation to an appreciable degree, it was not Government's intention to part with any of the gold in their possession. Meantime gold was not to be made a legal tender in India, though the Government looked forward to this as a future goal.

The proposals of the Government of India were based on the belief, that the rise in the value of the rupee, and in the exchange with London, subsequent to the year, 1894-95, was due to a contraction of the Indian currency relative to the demands of trade, that this cause would continue to operate so long as the mints were closed to silver and that, if only that stage of distrust could be passed, "which appears the moment exchange approximates to sixteen pence, to bring into operation influences which interfere with actual realisation of that rate," the exchange under normal conditions of trade might be expected "to attain the level at which gold would be tendered under the Notification of 26th June 1893, and the introduction of the gold standard would become practicable."

Besides these proposals, two other schemes for the establishment of a gold standard without a gold

currency were referred to the Secretary of State for India, by Government of India in their Despatch of March 3, 1898. One of these was associated with the name of Mr. A. M. Lindsay, Deputy Secretary of the Bank of Bengal and is given below as it has played an important part in the development of the Indian System of Currency : The *locus classicus* for a description of this scheme is Mr. Lindsay's evidence before the Fowler Committee on pp. 112-158 of Part I of the Minutes of Evidence. The plan is based on Ricardo's Proposals for an Economical and Secure Currency, especially Section IV on "An Expedient to bring the English Currency as near as possible to Perfection." Mr. Lindsay proposed that "£ 10,000,000 sterling should be raised in London by a long term loan, and should be deposited in the India Office or the Bank of England. The fund might be styled the Gold Standard Reserve, and the office dealing with it might be called the London Gold Standard Office. It should be announced that the London Gold Standard Office will be prepared to sell to all applicants rupee drafts for sums of Rs. 15,000 and upwards in exchange for sterling money at the rate of $1s. 4\frac{1}{16}d.$ and on the other side, a limit of $1s. 3\frac{3}{4}d.$ and that the limit of amount should be, in the case of rupees 15,000, and in the case of sterling £ 1,000. The rupee drafts should be drawn on two offices, to be opened either in the Indian Mints, or in Calcutta and Bombay Presidency Paper Currency Offices." The above scheme, since known as the "Gold Exchange Standard," was unfavourably received by the Government of India.

On receiving this suggestion the Secretary of State decided to refer these proposals to the Fowler Committee with the following terms of reference, on the 29th of April 1898. "It will be the duty of the Committee to deliberate and report to me upon these proposals and upon any other matter which they may regard as relevant thereto, including the monetary system now in force in India, and the probable effect of any proposed changes upon the internal trade and taxation of that country ; and to submit any modifications of the proposals of the Indian Government, or any suggestions of their own which they may think advisable for the establishment of a satisfactory system of Currency in India and for securing as far as is practicable, a stable exchange between that country and the United Kingdom."

Recommendations of the Fowler Committee.

The Committee submitted their Report on 7th July 1899 ; their recommendations being to the following effect : They agreed with the Government of India's proposal to keep the Indian Mints closed to the free coinage of silver as well as the adoption of a gold standard without delay. However, they could not recommend the practical steps recommended by the Indian Government to attain the end. With regard to the rate, at which the rupee was to be valued in sterling the Committee were not unanimous, inasmuch as two members recommended a rate of 15*d.* the rupee ; eight including the Chairman advised the definite adoption of the rate of 16 pence, and one while agreeing with the principles of the Report would prefer to take no immediate action for fixing a ratio. After ex-

pressing themselves definitely in favour of gold standard, they apply themselves to the question whether gold as the measure of value in India should be "either with a gold currency or with a gold reserve," and after taking into consideration the various proposals put before them, come definitely to this conclusion. "We are in favour of making the British Sovereign a legal tender and a current coin in India. We also consider that, at the same time, the Indian Mints should be thrown open to the unrestricted coinage of gold on terms and conditions such as govern the three Australian Branches of the Royal Mint. The result would be that, under identical conditions, the sovereign would be coined and would circulate both at Home and in India. Looking forward as we do to the effective establishment in India of a Gold Standard, and Currency based on the principles of free inflow and outflow of gold, we recommend these measures for adoption."

"Under an effective Gold Standard rupees would be token coins, subsidiary to the sovereign. But existing conditions in India do not warrant the imposition of a limit on the amount for which they should constitute a legal tender; indeed, for some time to come no such limitation can be contemplated."

These recommendations were accepted by the Secretary of State for India, and in his Despatch* of July 25th 1899 to the Government of India, he expressed his acceptance thus: "Her Majesty's Government have given to this report the careful

attention which its great importance deserves...and they have come to this conclusion that it is advisable to accept generally and to act upon the principle which it recommends :

“ I have therefore decided in Council, that the policy of keeping the Mints closed to the unrestricted coinage of silver shall be maintained, and I request that you will, as soon as you may deem it expedient, take the necessary steps for making the British Sovereign a legal tender and a current coin, and that you will make preparations for the coinage of gold under the conditions suggested by the Committee. As regards the permanent ratio which the rupee shall bear to the sovereign, after carefully weighing the arguments of those who are in favour of a lower rate than that which now obtains, I have no hesitation in accepting the view of the majority, who recommend an exchange rate of 16 pence per rupee, or 15 rupees to the sovereign ; and in this opinion I am confident your Excellency's Government especially after the experience of the last eighteen months, will be disposed to concur.

“ I am also in accord with the Committee as to the general principles by which your Government should be guided in the management of your gold reserve in the absence of a legal obligation to give gold in exchange for rupees, namely, that you should make it freely available for foreign remittances whenever exchanges fall below specie point, under such conditions as the circumstances of the time may render desirable.”

In addition to the above recommendations which were accepted by the Home Government, the Committee further recommended that "fresh rupees should not be coined until the proportion of gold in the currency is found to exceed the requirements of the public;" and that "any profit on the coinage of rupees ..should be kept in gold as a special reserve, entirely apart from the Paper Currency Reserve and the Ordinary Treasury Balances." The use to be made of this reserve is indicated in the following passage :—

"Although the Government of India should not, in our opinion, be bound by law to part with its gold in exchange for rupees, or for merely internal purposes, we regard it as the principal use of a gold reserve that it should be freely available for foreign remittances when the exchange falls below specie point, and the Government of India, should make its gold available for this purpose, when necessary, under such conditions as the circumstances of the time may render desirable.....when it has accumulated a sufficient reserve, and so long as gold is available in its Treasury, it might discharge its obligations in India in gold, instead of in rupees."

From 1898 till the Crisis of 1907-08.

In 1898, soon after the Indian Currency Committee of that year was appointed, it became for the first time profitable for persons out of India, who had payments to make in India to take advantage of the standing offer of the Government of India (made in 1893 in the form of a notification) to give rupees at the Calcutta or Bombay Mints,

or to issue notes¹ at the Paper Currency Offices, against gold tendered to them at a rate of exchange equivalent to Rs. 15 for £1.' In short the exchange value of the rupee had then reached 1s. 4d. So long as the offer of the Government of India to give rupees in exchange for gold at 1s. 4d. per rupee remained in force, and the Government were prepared to maintain a sufficient supply for this purpose, there was obviously no possibility of the exchange going above 1s. 4d. by more than the cost of shipping gold to India. But it was always possible that a falling of in the demand for currency might result in exchange dropping below 1s. 4d. by more than the cost of shipping gold from India to London unless the Government were willing to give gold in exchange for rupees at 1s. 4d. or to sell sterling exchange at a fixed rate without limit—an offer to which the Government have never in fact bound themselves.

Throughout the year 1898 and 1899 conditions favoured the maintenance of the exchange rate of 1s. 4d. and by the end of 1899 the year in which the Committee of 1898 issued their Report over 4,500,000£ of gold tendered in exchange for rupees at 1s. 4d. had been accumulated in the Paper Currency Reserve in India.

The Indian Act No. XXII of 1899, made sovereign and half sovereign legal tender throughout India at 15 rupees to the £. This remains the only statutory provision for the rating of the rupee at 1s. 4d. and has the effect of providing a statutory means of preventing the rupee from rising above the par of 1s. 4d. But it is obvious that even this Act

does nothing to prevent the rupee from falling below 1s. 4d.

In 1900 the Gold Reserve (which is now known as the Gold Standard Reserve) was created. By the middle of January 1900 the stock of gold in the Paper Currency Reserve in India had reached 5,000,000£. Though gold coins were now legal tender in India, the public continued to demand rupees, and the Government had to consider whether they should resume the coinage of rupees, for the first time since 1893.

An Act of 1898, supplementing the Act of 1893 and the Notification issued by the Government thereunder, declared their readiness to accept gold at the mints and paper Currency Offices at the rate of Rs. 15 to the £. This Act authorised the issue at the same rate of notes in India against gold deposited in London and earmarked at the Bank of England as part of the Paper Currency Reserve. Its effect was to facilitate Government remittances to London. But the additional issue of Currency against gold tendered in London added to the drain on the rupee reserves of the Government of India.

In 1899 the Government of India proceeded to carry out the recommendations of the Committee of 1898 by making an active effort to induce the people of India to use sovereigns as a medium of circulation. The Currency Offices were instructed to offer sovereigns to presenters of notes, while giving rupees to any one who objected to receiving sovereigns, and at the same time the Post Offices and other institutions under Government control were utilised to press

sovereigns on the public. In the beginning the results were gratifying, and Sir Clinton Dawkins, the then Finance Member, and Lord Curzon remarked as follows :—

Sir Clinton Dawkins, the Finance Member, said in 1900 :—

“ A year ago it seemed that we should probably have to sit for a long while under the reproach of our critics, and put up with what has been termed an ‘ exchange standard.’ It then appeared impossible that in twelve months we should be paying out gold to anybody who asked for it. We are doing so now. Whether we shall be able to continue to do so without check or interruption, whether now we have once started giving gold for rupees we may not have to suspend temporarily is not a matter about which a confident prediction can be made. But it would be reasonable to say that the auguries are not unfavourable for our being able to pursue the path on which we have entered. Our position in respect of gold is strong.”

Lord Curzon was even more emphatic. With that exuberance of language in which he always delighted to clothe his prophecies, he declared that stability of exchange had assumed a “ stereotyped form ” and added :—

“ This great change had been introduced in defiance of the vaticinations of all the

prophets of evil, and more especially of the particular prophecy that we could not get gold to come to India, that we could not keep it in our hands if we got it here, but that it would slip so quickly through our fingers that we should even have to borrow to maintain the necessary supply. As a matter of fact we are almost in the position of the mythological king, who prayed that all he touched might be turned into gold and was then rather painfully surprised when he found that his food had been converted into the same somewhat indigestible material. So, much gold, indeed, have we got that we are now giving gold for rupees as well as rupees for gold, *i. e.*, we are really in the enjoyment of complete convertibility—a state of affairs which would have been derided as impossible by the experts a year ago.”

However, many of the gold coins soon made their way back into Government hands, and the Government found themselves unable to cash currency notes in rupees not only at the Cawnpore and other treasuries in the United Provinces but on the 11th April 1900 at the Head Office in Calcutta itself. Notes became subject to a discount of as much as $\frac{7}{10}$ ths per cent. in Cawnpore, and there was a serious danger of a failure of confidence in the paper currency. Meanwhile sovereigns also went to a discount of as much as 4 as. in many places. Special demands for rupees owing to famine conditions and the

inadequacy of the supply of the favourite circulating medium combined to aggravate the general monetary stringency.

In these circumstances the Government of India resumed the coinage of rupees early in 1900 on a considerable scale. Recourse to the London Silver market soon became necessary, and the Act of 1898, just mentioned was continued for a further period of two years with the addition of a provision authorising the use of gold held in the Paper Currency Chest in London for the purchase of silver for the coinage of rupees, and the treatment of the silver so purchased as part of the Reserve against notes in circulation during the interval between purchase and mintage. An Act of 1902 made the whole of these provisions permanent.

The Government, instead of coining fresh rupees in large quantities, and giving up the idea of introducing gold, should have refused to coin rupees, and should have declared the rupee a subsidiary coin. And this would have been more in accord with the policy adopted by them in 1893 and persistently followed till the year 1900. During the first period the inducement to coin rupees was very great indeed. The Exchange was not quite stable, and the Government had still to find an increasing number of rupees to pay for the "Home Charges." And an Honourable Member of the Supreme Legislative Council actually asked :—

“Is there any objection to the Government working the Mints on their own account? Considering the low value of silver and the great margin between the respective

prices of bullion and the rupee, would not Government by manufacturing rupees for itself make sufficient profit to meet at least a substantial portion of the present deficit? It seems to me to be a legitimate source of revenue and one capable of materially easing our finances." But Sir James Westland, who was then in charge of the finances of India, replied :—

" I must confess to a little surprise in finding the proposal put forward by one of the commercial members of your Excellency's Council that we should buy silver at its present low price, and coin it for issue at the appreciated value of the rupee..... I shall certainly refuse myself to fall into this temptation.

Again, in 1898, when some of the followers of Mr. Lindsay desired that Government should coin rupees to relieve the monetary stringency, Sir James Westland remarked :—

"in our opinion the silver standard is now a question of the past. It is a case of *vestigia nulla retrorsum*. The only question before us is how best to attain the gold standard. We cannot go back to the position of the open Mints. There are only two ways in which we can go back to that position. We can either open the Mints to the public generally, or we can open them to coinage by ourselves. In

either case what it means is that the value of the rupee will go down to something approaching the value of silver. If the case is that of opening the Mints to the public, the descent of the rupee will be rapid. If it is that of opening only to coinage by the Government, the descent of the rupee may be slow but it will be no less inevitable."

The Hon. C. E. Dawkins was equally emphatic in his denunciation of the project of Government coining rupees. When he was tempted to acquiesce in the proposal by holding out the prospects of a profit from coinage, he replied :—

" I think I ought.....to beg my hon. friend not to dangle the profits on silver too conspicuously before the eyes even of a most virtuous Government. Once let these profits become a determining factor in your action, then good-bye stability."

Another instance of the Government's determination not to coin rupees is furnished by inquiring into the reasons as to why it is that the Government has never assumed the responsibility of selling council bills in indefinite amount and at a fixed rate. The Chamberlain Commission argued that the Government cannot undertake such a responsibility because it cannot hold out for a fixed rate, and may have to sell at any rate even lower than par. This is true so far as it is a confession of a position weakened by the Government's folly of indulging

in excessive rupee coinage. But this was certainly not the explanation which the Government gave in 1900 when it was first asked to assume that responsibility. The Government knew perfectly well that to keep on selling bills indefinitely was to keep on coining rupees indefinitely. They refused to assume that responsibility because they did not want to coin rupees. That this was the original reason was made quite plain by the Hon. Mr. Dawkins, who reminded those who asked Government to undertake such a responsibility that "

" the silver coin reserve of Government had rapidly neared a point at which it was impossible to continue to meet unlimited transfers (*i. e.*, council bills). Therefore the Secretary of State decided to limit the demands by gradually raising the rate, thus meeting the most urgent demands, and weeding out the less urgent, while warning those whose demands were not so urgent to ship gold to India. No other course was practicable. The liability of the Secretary of State to keep the tap turned on indefinitely at $1s. 4\frac{5}{32}d.$ has been asserted. But I cannot see that any positive liability exists, and I wonder if those who assert its existence would have preferred that the stability of our currency (whose situation they are well able to appreciate and follow) should have been affected by the reserve of rupees being dangerously reduced? " (and which could not be augmented except by coining more rupees).

Just at the nick of time, when the ideal of a gold standard with a gold currency was about to be realized, there came on the scene Sir Edward Law as

the Finance Minister of India and tore the whole structure of the new currency to pieces. His was the Minute of June 28, 1900, which changed the whole course of events. In that Minute after describing the results of sending sovereigns into active circulation occurs the following important passage :—

“ As a result of these considerations it must, I think, be admitted that the amount of gold which can safely be held in the Currency Reserve must for the present be regulated by the same rules as would guide the consideration of the amount by which the proportion invested in Government securities could be safely increased. Pending an increase in the note circulation...or some other change in existing conditions, I am of opinion that a maximum sum of approximately £7,000,000 in gold may now be safely held in the Currency Reserve. I should not, however, wish to be bound absolutely to this figure, which is necessarily an arbitrary one, and particularly I should not wish any public announcement to be made which might seem to tie the hands of the Government in the event of circumstances, at present unforeseen, rendering its reduction hereafter desirable.”

In outlining this Minute, which with modifications in the maximum gold to be held in the Currency Reserve, remains the foundation of the currency

system in India, the author of it never seems to have asked for one moment what was to happen to the ideal of a gold standard and a gold currency? Was he assisting the consummation of the gold standard or was he projecting the abandonment of the gold standard in thus putting a limit on the holding of gold? Before the policy of this Minute was put into execution the Indian currency system was approximating to that of the Bank Charter Act of 1844, in which the issue of rupees was limited and that of gold unlimited. This Minute proposed that the issue of gold should be limited and that of rupees unlimited—an exact reversal to the system of the Bank Suspension period. In this lies the great significance of the Minute, which deliberately outlined a policy of substituting rupees for gold in Indian Currency and thereby defeating the ideal held out since 1893 and well-nigh accomplished in 1900.

If Sir Edward Law had realized that this meant an abandonment of the gold standard, perhaps he would not have recorded the Minute. But what were the considerations alluded to in the Minute which led him thus to subvert the policy of a gold standard and a gold currency rather than on the rupee part of the currency? They are to be found in a despatch, No. 302, dated September 6, 1900, from the Government of India, which says :—

“.....the receipts of gold continued and increased after December last. For more than eight months the gold in the Currency Reserve has exceeded, and the silver has been less than the limit suggested in the

despatch of June 18. By the middle of January the stock of gold in the Currency Reserve in India reached £5,000,000. The proposal made in that despatch was at once brought into operation ; later on we sent supplies of sovereigns to the District Treasuries, with instructions that they should be issued to anyone who desired to receive them in payments due or in exchange for rupees ; and in March we directed the Post Office to make in sovereigns all payments of money orders in the Presidency towns and Rangoon, and we requested the Presidency Banks to make in the Presidency towns and Rangoon payments on Government account as far as possible in sovereigns. These measures were taken, not so much in the expectation that they would in the early future relieve us of any large part of our surplus gold, but in the hope that they would accustom the people to gold, would hasten the time when it will pass into general circulation in considerable quantities, and by so doing would mitigate in future years the difficulties that we were experiencing from the magnitude of our stock of gold and the depletion of our stock of rupees.

* * * * *

“ We may mention that we have closely watched the result of the measures described above.

The issues of gold have been considerable : but much has come back to us through the Currency Department and the Presidency Banks. The Comptroller-General estimated the amount remaining in circulation at the end of June at *over a million and a quarter out of nearly two millions issued up to that time* ; but there are many uncertain data in the calculation. We are not yet able to say that gold has passed into use as money to any appreciable extent.

“ It is very desirable that we should feel assured of being able to meet the public demand for rupees, as indicated by the presentation of currency notes and gold. We, therefore strongly press on your Lordship the expediency of sanctioning the above proposal for further coinage (of rupees)...

* * * * *

“ But we do not wish our proposal to be considered as dependent on such arguments as those just stated. We make it primarily on the practical ground that we consider it necessary in order to enable us to fulfil an obligation which, though we are not, and do not propose to be, legally committed thereto, we think it desirable to undertake so long as we can do it without excessive inconvenience ; namely, to pay rupees to all tenderers of gold and to give rupees

in encashment of currency notes to all who prefer rupees to sovereigns."

The arguments advanced in this statement of the case for coining rupees are not very convincing. At the outset it is something unheard of that a Government which was proceeding to establish a gold standard and a gold currency should have been so very alarmed at the sight of increased gold when it should have thanked its stars for such early consummation of its ideal. The Government, according to its own statement, undertook to coin rupees for two reasons : (1) because it felt itself obliged to give rupees whenever asked for, and (2) because people did not want gold. What force is there in these arguments ? Respecting the first argument it is difficult to understand why Government should have felt obliged to give rupees. The obligation of a debtor is to pay the legal-tender money of the country. Gold had been made legal tender, and the Government could have discharged its obligations by paying out gold without shame or apology. Secondly, what is the proof that people did not want gold ? It is said that the fact that the gold paid out by Government returned to it is evidence enough that people did not want it. But this is a fallacy. In a country like India Government dues form a large part of the people's expenditure, and if people used that gold to meet those dues—this is what is meant by the return of gold to Government—then it is an evidence in support of the contention that people were prepared to use gold as currency. Then again if out of a total of two million gold sent into circulation only three-quarter of a million came back, then certainly, it

was not justifiable to say that people did not want gold. The fact is that the experiment was tried for such a short time, that it is not possible to argue from it one way or another. But if it is true that people do not want gold, how does it accord with the fact that Government refuses to give gold when people make a demand for it? Does not the standing refusal imply that there is a standing demand? There is no consistency in this mode of reasoning. The fact is, all this confused advocacy was employed to divert attention from the truth that the Government was anxious to coin rupees not because people did not want gold, but because the Government was anxious (1) to make India purchase silver to benefit the big silver dealers of England, and (2) to build a gold reserve out of the profits of additional coinage of rupees to be kept and lent in England at favourably low rates of interest. That this was the underlying motive is manifest from the minute of Sir Edward Law. The argument about people disliking gold, and so forth, was only a cover, and the true motive comes out prominently from that part of the Minute in which its author had argued that :—

“If it be accepted that £7,000,000 is the maximum sum which under existing conditions, can be held in gold in the Currency Reserve, in addition to the 10 crores already invested, it is evident that such assistance as can be obtained from manipulating the reserve will fail to provide the sum in gold which it is considered advisable to hold in connection with the maintenance of a steady ex-

change. So far no authority has ventured to name a definite sum which should suffice for this purpose, but there is a general consensus of opinion, in which I fully concur, that a very considerable sum is required. The most ready way of obtaining such a large sum is by gold borrowings, but the opinion of the Currency Commission was strongly hostile to such a course, and the question therefore remains unanswered : How is the necessary stock of gold to be obtained ?

“ I do not presume to offer any cut-and-dried solution of this difficult problem, but I venture to offer certain suggestions which, if adopted, would, I believe, go a considerable way towards meeting the difficulty. I propose to create a special ‘ Gold Exchange Fund,’ independent of, but in case of extraordinary requirements for exchange purposes to be used in conjunction with, the gold resources of the Currency Reserve. The foundation of this fund would be the profit to be realized by converting into rupees the excess above £7,000,000 now held in gold in the currency reserve.”

Can there be any doubt now as to the true cause for coining rupees ? Writers who have broadcasted that rupees were coined because people did not want gold cannot be said to have read correctly the history of the genesis of the exchange standard in India. The real reason of its birth lies in the British anxiety

to prevent gold from coming to India, and not in India's refusal to accept it.

It was decided in 1900 to follow the recommendations of the Committee of 1898 as regards the formation of a special reserve from the profits on the coinage of rupees. The Government of India put forward proposals for the formation of such a reserve in their Despatch No. 302 of the Sixth September 1900. Their idea was to keep the reserve in gold locked up in a special chest in India. The decision of the Secretary of State, however, as given in his Despatch No. 232 of the 13th December 1900, was that the profits should be remitted to London and invested in sterling securities. It was held that since London was the place in which the Reserve would have to be applied on the occasion of an emergency against which it was being created, London would be the best place in which to keep it.

For the first few years from 1901 onwards the profits on the coinage of rupees were accordingly remitted to London by the shipment of gold for investment, the gold being taken out of the accumulations in the Paper Currency Reserve in exchange for the freshly coined rupees. The interest earned on the Securities was also added to the Gold Reserve. These securities were at the outset Consols only, but in 1903 investments were made also in National War Loan Stock, and other Stocks, such as Local Loans. This extension of investment seems to have been dictated at the time by the desire to avoid too large holdings of one security and to earn a better rate of interest. In 1905 the Government of India shipped to London 5,000,000 sovereigns

out of the accumulated stock in the Paper Currency Reserve in India. With a continuance of the favourable balance of trade, the stocks of sovereigns continued to increase, and the difficulty of the Government of India was not in the direction of keeping exchange up to 1s. 4d. but in providing sufficient rupees to meet the demands of the public. In 1906 this difficulty of meeting the demand of the public for rupees led to the formation in India of a special reserve for this purpose outside the Paper Currency Reserve. At first this reserve had been held inside the Paper Currency Reserve in silver ingots and then in partly coined rupees, but finally in 1906 the more natural course of holding the reserve in fully coined rupees was adopted. The fact that this reserve was needed in order to prevent the possibility of the exchange value of the rupee going to a premium over 1s. 4d. through a failure in supply, suggested that its cost might be charged against the Gold Reserve, by the simple process of holding the profits on the coinage of the rupees in the reserve in the form of rupees in India instead of converting them into sterling in London. The name of this reserve thereupon was changed to the Gold Exchange Standard Reserve, which after this till 1915 consisted of two portions, one held in gold and sterling securities in London and the other in India in rupees.

It was also realised that the practice of accumulating gold in the Paper Currency Reserve in India, and then its shipping to England was needlessly expensive. They saw that by an extension of the practice of receiving gold in London in exchange

for rupees in India, Indian revenues could be saved the expenses of shipping gold to London. Accordingly the practice introduced in 1898 of selling Council Drafts for gold in London and issuing notes against such Drafts in India was extended, and since 1904 until January 1917 the Secretary of State kept open a standing offer to sell Council Bills without limit at the price of 1s. 4½d. Whenever the demand for these drafts was very strong, and the Treasury Balances of the Government of India weak, the Drafts were met by the withdrawal of rupees from the Paper Currency Reserve in India against a corresponding deposit of gold in the Currency Chest in London and if necessary by the withdrawal of rupees from the Indian Branch of the Gold Exchange Standard Reserve. The Government of India meanwhile purchased silver, if necessary, in London out of the proceeds of the Council Drafts sold there and shipped it to India to be coined into rupees.

In December 1906 the Secretary of State sold Telegraphic Transfers freely to convenience trade, and advised the Government of India to meet these by borrowing silver in the Gold Exchange Standard Reserve. Government of India were very unwilling to borrow from the silver branch except in a serious emergency, and suggested the issue of transfers through Currency. The Secretary of State replied by telegram :

“ For various reasons I wish to avoid the addition of gold to the Currency Reserve in London. This would for example, entail a diminution of the reserve of the Bank of England, and by its effect on discount

rates in London would probably interfere with arrangements for renewing the debentures of guaranteed railways."

In June 1907 a Committee was appointed by the Secretary of State to consider the question of Indian railway finance. This Committee recommended that 1 million pounds sterling out of the profits on the coinage of rupees in 1907 should be devoted to the provision of additional rolling stock and other improvements for Indian railways. They justified their proposal by the following review of the strength of Indian gold resources against a fall in exchange :

"The object of the Gold Standard Reserve is to enable Government of India and the Secretary of State to meet their sterling obligations in the event of a falling off in the demand for Council Bills. This reserve at the present time consists of sterling securities of the market value of 12,310,629£, together with a sum of six crores of rupees, which is held in silver in India. In addition to the Gold Standard Reserve, there is a large amount of gold (11,066,000£ of which 7,708,000£, is held in London and 3,361,000£ in India in the Paper Currency Reserve, which could be applied to the same object... Apart, therefore, from the six crores in silver, there is at the present moment a fund of upwards of 23,000,000£ in sterling securities and gold bullion which could be drawn upon in case of necessity."

The Secretary of State for India went beyond the recommendations of the Committee and decided that for the future one half of any profits on the coinage of rupees should be used for Capital expenditure on railways until the Gold Standard Reserve reached 20,000,000£. It was apparently contemplated that after that total had been reached, the whole profits on silver coinage should be diverted from the Reserve. This decision was strongly criticised in India, and the Government of India in a telegram dated the 24th June 1907 followed by a Despatch dated the 8th August 1907, urged that the portion of the Gold Standard Reserve held in sterling securities should be allowed to accumulate to 20,000,000£ before any further sums were diverted from it. The Secretary of State, however, proceeded to act upon the recommendations of the Committee, and used 1,123,000£ of the profits on coinage. "The danger," he stated in a telegram dated 2nd July 1907, "which you allege of a fall in exchange I regard as illusory, having regard to the present conditions of trade, the amount of securities in the Gold Standard Reserve, and of gold in the Currency Reserve."

The First Crisis.

Contrary to expectations a partial failure of the Summer monsoon in 1907, and the general monetary stringency all over the world which accompanied the American financial crisis in the autumn of 1907, caused the Indian exchange to become very weak in November that year, with the result that the balance of trade went against India in 1907-08 and for the first time since the

rupee was fixed at 1s. 4d. the Gold Standard Reserve and the other sterling resources of the Government of India had to be utilised to maintain exchange. The stock of sovereigns in the Paper Currency Reserve in India began to fall, their place being taken by rupees. *The Government of India were asked to sell Telegraphic Transfers on London at Rs. 15 to the £ and after consulting the Secretary of State refused.** Then the Government of India refused to give gold from the Paper Currency Reserve for export in larger quantities than 10,000£ to any one individual in one day, but continued to give gold for internal purposes, and as a consequence the exchange in Calcutta fell on 23rd November, 1907 to as low as 1s. 3 $\frac{23}{32}$ d. British postal orders for 10,000 £ and other large sums began to be bought as a means of obtaining remittance to London. Thereupon the Secretary of State for India urged the Government of India to give gold for export, and being unable to sell Council Drafts released gold from the Paper Currency Reserve in London against the transfer of an equivalent amount of rupees from the Treasury Balances to the Paper Currency Reserve in India. This action, and the action of the Government of India, who consented to give out gold for export, improved exchange, which had recovered by 3rd December 1907 to 1s. 3 $\frac{7}{8}$ d. in Calcutta. The

* This refusal shows two things : (1) a lack of policy. The Fowler Committee had definitely recommended that in the event of a weak exchange the Government should sell Sterling Bills on London, and it was for this that the Gold Reserve was created. And (2) a complete disregard of the welfare of Indian trade and commerce.

suggestion of the Secretary of State that Telegraphic Transfers up to 250,000 £ should be put up to tender by the Government in India at not less than 1s. 3 $\frac{27}{32}$ d. was not therefore immediately acted upon, but the Exchange Banks were informed on the 7th December that the Government in the event of serious weakness in the exchange contemplated offering for tender in India Sterling exchange on London.

As the normally busy season went on, rates remained weak and the sale of Council Drafts continued impossible ; finally it was decided on the 4th March 1908 to have weekly sales in India of a certain maximum quantity of sterling bills at the fixed rate of 1s. $\frac{29}{32}$ d. instead of Telegraphic Transfers by tender at not less than 1s. 3 $\frac{27}{32}$ d. as previously proposed, and on the 26th March 1908, such bills were first sold.

Bills continued to be sold freely in India from this date until on 11th September 1908 the position of exchange appeared to have become sufficiently strong, and the Government of India announced the discontinuance of this offer. In all 8,058,000 £ was withdrawn during this period from the Gold Standard Reserve to meet the Bills. The sale of Council Drafts in London naturally ceased during this period, but the India Office kept themselves in funds by the transfer of 4,530,000£ from the gold in the Paper Currency Reserve Chest in London.

From 1907-08 till 1913-1914.

From 1907-08 till 1913-14 India enjoyed a period of exceptional prosperity, and during this

period the demand for remittances from London to India was so strong as not only to call for the reissue of the large stocks of rupees accumulated in India during the crisis of 1907-08, and thus incidentally to restore the Gold Standard Reserve in London to its former amount, but also to necessitate coinage of fresh rupees the profit on which went to increase the Reserve far beyond the maximum point reached before 1907-08.

The experience of the years 1907 and 1908 was invaluable. It led to a long discussion between the Government of India and the Secretary of State on Currency Policy. This has been published in a series of State papers as an appendix to the Interim Report of the Chamberlain Commission. The one fact which dominated the situation was the grave loss which the Gold Standard Reserve suffered in 1908. The Government of India in their Despatch of April 1, 1909, pressed for a large Gold Standard Reserve, and also for its being kept in a more liquid form. They regarded £25,000,000 as the minimum of safety, apart from the gold in the Paper Currency Reserve and treasuries, and desired that the decision of July 1907 to use a part of the profits on rupee coinage for Capital expenditure be held in abeyance until that amount was secured. The Government of India emphasised that the Gold Standard Reserve had to be strong enough to meet not only the Secretary of State's Home Charges but also the remittances of private persons or banks. The Secretary of State replying in July of the same year, decided to regard £25,000,000 as the standard

for the gold in the Gold Standard and the Paper Currency Reserves combined ; and so long as the gold in the two reserves was below the standard, the whole of the profits on coinage was to be added to the Reserve. Thereafter the question was liable to reconsideration. The Secretary of State did not agree to the proposal of a greater holding of liquid gold on account of pecuniary disadvantage. The realization of securities to support exchange was not, he believed beyond the capacity of the Secretary of State in Council and his advisers. He decided to leave £1,000,000 of the Gold Standard Reserve more liquid by allowing this to be lent out for short periods on security to approved institutions or firms, or deposited at interest with banks of high standing. In September 1909 the Government of India accepted with regret this decision of the Secretary of State. They showed that the Currency position of the Government of India resembled that of an army exposed to sudden attack on either flank, that provision must be made for a drain upon the silver no less than on the gold reserves. They recommended that (1) the silver branch should not be allowed to fall below six crores ; (2) not less than one half of the balances in the Currency Reserve should be in rupees ; and (3) a minimum of Rs. 18 crores should be worked up to at the beginning of the busy season. Government of India also urged the desirability of holding a large amount of gold in India in the Paper Currency Reserve, and until this was reached no increase should be made in the amount of gold in the Paper Currency Reserve in England.

This drew from the Secretary of State a reply* in February 1910, in which he suggested a formula for the amount of the rupee balances to be held at the beginning and the end of the busy season. This was accepted by the Government of India. As regards the strength of the reserve of gold in the Paper Currency Reserve, the Secretary of State held that it was more advantageous to keep gold in England than in India. He compared the advantages thus :

“ Gold held by the Government of India may be issued for export, or to be used as currency, or to be hoarded, or to be converted into ornaments. So far as it is issued for export, it may be regarded as fully effective for the support of exchange. So far as it is used as currency, it may be regarded as available wholly or in part for supporting exchange when the rate of exchange falls as low as gold export point, since it is probable that in such conditions a part at least of the amount in circulation would be exported ; but when the rate falls, not as low as to gold export point, but to a figure at which it is desirable to suspend the sale of Council Bills, the gold in circulation is likely to be of little or no use for supporting exchange, at any rate immediately, since it would probably not be exported, and would obviously not be

* P. 185, Vo. I. The Interim Report of the Chamberlain's Commission.

available towards defraying the Home Charges of the Secretary of State. Gold that is hoarded or converted into ornaments can scarcely be regarded as available for the support of exchange. On the other hand, gold held in England is available for supporting exchange not only when the rate falls to gold export point (when it can be used for meeting bills on London sold in India), but also at the earlier stage when the rate has fallen only to the point at which the suspension of Council Bills is desirable (when it can be used towards defraying the home charges). The stock is not liable to be depleted by any cause corresponding to the disappearance into hoards of gold in India. When the demand for remittances is strong, gold in England is available for any purchase of silver that may become necessary."

The Secretary of State further declined to commit himself to postpone any increase of the stock in England and informed the Government of India that he was shortly to revive the arrangements which were in force in the years 1905, 1906, and 1907 for the purchase of gold in transit. He also negatived the proposals regarding the state of Council Bills' transfers :

"To refuse at certain times of the year to issue rupees for trade purposes, except against gold presented in India or "ear-marked" in London, might

cause the periodical recurrence of stringency in the London Money Market, by which the Secretary of State for India in Council—owing to the frequency and magnitude of his operations in issuing and renewing loans (either direct or through guaranteed railway companies)—is peculiarly liable to be injured ; and by which it is also probable that the trade of India with other countries would be seriously affected.”

In February 1912 the Government of India sent a Despatch to the Secretary of State for India. This despatch is, perhaps, the most interesting of all the state papers published with the Interim Report. After expressing general agreement with the memorandum on rupee balances, *viz.*, that a stock of 24 crores and 17½ crores of rupees at the beginning and end respectively of each busy season should be aimed at, they observe in regard to the gold reserve.

“ We should have been glad to meet the widely expressed sentiment in favour of having at least a part of our Gold Standard Reserve in India ; but we recognise that, for the purpose of supporting exchange, the issue of our gold is equally, and certainly more quickly effective in London than it would be in this country. We should also be glad to keep an ample supply of gold in our London currency chests, in the hope of stimulating the genuine circulation of sovereigns.”

The despatch deals with the many issues with which they began in 1909, *viz.*, the standard amount of the Gold Standard Reserve and the form in which it is held. The Government of India adhered to their view for a large holding of liquid gold, strictly

reserved for emergencies, and suggested £25,000,000 as the Standard figure. In June 1912 the Secretary of State replied, agreeing to the principles of rupee coinage and silver purchases. He also decided (1) that £25,000,000 should be the standard for the Gold Standard Reserve and (2) that £1,000,000 in gold should be ear-marked as a deposit in the Bank of England. The recommendation of the Government of India for the coinage of sovereigns at the Bombay Mint was accepted, but in view of the difficulties with the Treasury the Secretary of State suggested the coinage in Bombay of a Rs. 10 piece. However the matter was left open, as soon after the Secretary of State decided to appoint a Commission to go into the question of Indian Currency.

The only important development affecting the Reserve during this time was in the direction of making the Reserve more liquid. Partly owing to conditions affecting all gilt-edged securities with no due date of redemption, and partly to a clearer conception of facts, the authorities responsible for the Reserve reduced the holdings of Consols and other similar securities, and began to invest in short term securities such as Exchequer Bonds and Treasury Bills.

It will be clear from the above that the measures adopted to maintain the exchange value of the rupee before the appointment of the Chamberlain Commission, were less in pursuance of the Recommendations of the Fowler Committee than supplementary to them. As already pointed out the authorities in India duly carried out the recommendations of the Committee to make the

sovereign legal tender in India and to establish a Gold Reserve. But their first efforts to force the sovereign into circulation having failed, they abandoned the attempt actively to encourage the circulation of a gold currency in India and as a corollary of this change of tactics, they kept the Gold Reserve in London for use in support of exchange. The investment of the Gold Standard Reserve in securities in London, the dropping of the scheme for a gold mint in India, the practice of selling Council Drafts at something below gold point against the Currency Reserve, the establishment of the silver branch of the Gold Standard Reserve, the diversion in 1907 of money for Capital expenditure and its use in 1908 for meeting drafts sold by Government in India on London to private traders, are all examples of divergences from the scheme adumbrated by the Committee. Thus in spite of the fact that the Government adopted and intended to carry out the recommendations of the Committee of 1898, the Indian Currency System before the appointment of the Chamberlain Commission differed considerably from that contemplated by the Committee, whilst the mechanism for maintaining exchange had some important features in common with the suggestions once made to the Committee by Mr. A. M. Lindsay. The system actually in operation was never deliberately adopted as a consistent whole, nor did the authorities themselves appear to have had a clear idea of the final object to be attained. And this was due to the fact that the authorities in India and England were not working always on the same lines. The Government of India taking their cue from the Fowler Committee wished

to dribble gold through treasuries when available, and to decide the question of silver purchases simply with reference to rupee balances and the future prospects of trade ; while the Secretary of State taking his cue from Mr. Lindsay's Scheme, was unwilling throughout to allow all the gold to come to India. It was, in other words, a case of the Gold Standard *cum* Gold Currency verses the Gold Exchange Standard. The latter form of currency system unlike the former had not the blessings of an authoritative Currency Commission, so the Secretary of State appointed the Chamberlain Commission " to enquire into the location and management of the general balances of the Government of India ; the sale in London of Council Bills and Transfers, the measures taken by the Indian Government and the Secretary of State for India in Council to maintain the exchange value of the rupee in pursuance or supplementary to the recommendations of the Indian Currency Committee of 1898, more particularly with regard to the location, disposition and employment of the Gold Standard and the Paper Currency Reserves ; and whether the existing practice in these matters is conducive to the interests of India ; also to report as to the stability of the financial organisation and procedure of the Indian Office ; and to make recommendations."

Summary of conclusions of the Chamberlain Commission Report—

" (i) The establishment of the exchange value of the rupee on a stable basis has been and is of the first importance to India.

“ (ii) The measures adopted for the maintenance of the exchange value of the rupee have been necessarily and rightly rather supplementary to, than in all respects directly in pursuance of, the recommendations of the Committee of 1898.

“ (iii) These measures worked well in the crisis of 1907-08, the only occasion upon which they have been severely tested hitherto.

“ The time has arrived for a reconsideration of the ultimate goal of the Indian Currency System. The belief of the Committee of 1898 was that a gold currency in active circulation is an essential condition of the maintenance of the Gold Standard in India, but the history of the last fifteen years shows that the Gold Standard has been firmly secured without this condition.

“ It would not be to India's advantage to encourage an increased use of gold in the internal circulation. The people of India neither desire nor need any considerable amount of gold for circulation as currency, most generally suitable for the internal needs of India consists of rupees and notes. A mint for the coinage of gold is not needed for purposes of currency or Exchange, but if Indian sentiment genuinely demands it and the Government of India are prepared to incur the expense, there is no objection in principle to its establishment either from the Indian or from the Imperial stand-point; provided that the coin minted is the sovereign (or the half-sovereign); and it is pre-eminently a question in which Indian sentiment should prevail.

to do so. The Paper Currency system of India should be made more elastic. The fiduciary portion of the note issue should be increased at once from 14 crores to 20 crores, and thereafter fixed at a maximum of the amount of notes held by Government in the Reserve Treasuries plus $\frac{1}{3}$ rd of the net circulation, and the Government should take power to make temporary investments or loans from the fiduciary portion within this maximum in India and in London, as an alternative to investment in permanent securities. We recommend the immediate universalisation of 500 rupee notes, and the increase of the facilities for the encashment of notes. The aggregate balances in India and London in recent years have been unusually large. This has been due mainly though not entirely, to accidental causes and to the exceptional prosperity of India. Caution is justifiable in framing budgets in India, but has been carried rather further than was necessary in recent years.

“The practice of transferring revenue surpluses to London to be used in avoiding or reducing fresh borrowings for capital expenditure has been thoroughly justified in the interests of India, and the Secretary of State has made good use, for this purpose or for actual reduction of debt, of the balances from time to time accumulated in his hands. But the recommendations which we make as regards loans by Government in India may lead to a revision of the occasions, though not extent, of transfer of money to London. The independent Treasury System of the Indian Government is not ideal one. It is partly responsible for the stringency which recurs annually in the Indian

Money Market. We recommend that the Government of India should make it a regular practice of granting loans to the Presidency Banks from their surplus balances in India against security on terms to be negotiated with the Presidency Banks.

“In deciding upon location of surplus balances, the Government of India and the Secretary of State should act in consultation and, while the transmission of necessary funds to London at favourable rates of exchange is the first consideration, the authorities should have regard to all the factors including the possibility of utilizing surplus balances for loans in India.

“The India Office perhaps sold Council Drafts unnecessarily at very low rates on occasions when the London Balance was in no need of replenishment, but we do not recommend any restrictions upon the absolute discretion of the Secretary of State as to the amount of drafts sold or the rate at which they are sold, provided that it is within the gold points.”

However, before the recommendations of the Chamberlain Commission could be embodied in an Act of Legislature, as was rightly suggested by them the Great War came on, and the Indian Currency System was again left to the will of the Executive.

Effects of war on currency in India.

The outbreak of war immediately caused, in India as elsewhere, a general dislocation of trade and business of which the principal symptoms were the weakening of exchange, withdrawals of Savings Bank

deposits, a demand for the encashment of notes, and a run on Indian gold stocks.

Weakening of Exchange.

The weakening of exchange was met by the proved expedient of offering drafts on London. Between 6th August 1914 and 28th January 1915 Reverse Councils were sold to the extent of 8,707,000£. In February 1915 the demand for Council Drafts revived, and, apart from further periods of weakness in 1915-16. and between November 1918 and April 1919, when Reverse Councils were sold to the extent of 4,893,000£, and 5,465,000£, respectively, Indian exchange remained strong throughout the duration of the war.

Encashment of notes.

Some lack of confidence in the Indian note issue manifested itself at the outbreak of war and resulted in a net return of Currency notes to the extent of 10 crores between 31st July 1914 and 31st March 1915, at which date the net circulation had declined from Rs. 66·28 crores to Rs. 55·65 crores. The silver had in the Paper Currency Reserve fallen from Rs. 33·94 crores on 31st July to Rs. 29·87 crores on 31st December 1914. But from the spring of 1915 onwards there was a steady increase of the note circulation and on 30th November 1919 the net circulation amounted to Rs. 178·93 crores.

At the end of July 1914 there arose a keen demand for gold in exchange for notes, and between the 1st and 4th of August the Government of India lost about 1,800,000£ of gold. Some precautions had

been taken to discourage the withdrawal of gold for internal purposes when there was a demand for its use as a means of foreign remittance ; but when it was seen that the precautions were unavailing it became necessary, on 5th August, to suspend the issue of gold to private persons. After that time notes presented for encashment were paid in silver coin only.

These disquieting symptoms lasted only for a short time. The return of public confidence was assisted by the assurance given to the banking and commercial community of adequate and continuous facilities for remittance and by the readiness with which the Government of India met demands for the encashment of currency notes.

Currency difficulties during the War and the appointment of the Babbington Smith Committee.

It is not surprising that the outbreak of war should have caused a temporary disturbance in Indian Currency conditions, but when the first shock had passed away the currency mechanism worked smoothly. It was not until the end of 1916 that acute complications arose in the sphere of Indian Currency and Exchange. These complications showed themselves mainly in the rapid rise in the price of silver and later in the increasing difficulty of obtaining silver to meet the heavy demands for silver coin. The causes contributing to these results were various, and it will be necessary to trace them in some detail.

The Government of India, as is well-known, are under the obligation of meeting heavy sterling payments in the United Kingdom. The net amount of

these in the years 1910-14 averaged over 25,000,000£ a year. The ability of the Government of India to remit to London the funds required for these payments and also the successful working of the Indian Currency System depend on the existence of a substantial balance of trade in India's favour. In the period immediately preceding the outbreak of war India had enjoyed a series of remarkably prosperous seasons, as will be seen from the following table, which exhibits, the value of her exports and imports on private account for the years 1909-10 to 1913-14:—

Exports and Imports of Merchandise on Private Account.

Year.	Exports.	Imports.	Net Exports.
	£	£	£
1909-10...	125,253,000	78,040,000	47,213,000
1910-11...	139,921,300	86,236,000	53,685,300
1911-12...	151,896,100	92,383,200	59,512,900
1912-13...	164,364,800	107,343,900	57,020,900
1913-14...	165,919,200	122,165,300	43,753,900
Average for 5 years	<u>149,470,900</u>	<u>97,233,700</u>	<u>52,237,200</u>

The corresponding figures for the years 1914-15 to 1918-19 are as follows :—

Year.	Exports.	Imports.	Net Exports.
	£	£	£
1914-15 ...	121,061,100	91,952,600	29,108,500
1915-16 ...	131,586,800	87,560,200	44,026,600
1916-17 ...	160,591,200	99,748,000	60,843,200
1917-18 ...	161,700,000	100,280,000	61,420,000
1918-19 ...	169,230,000	112,690,000	56,450,000
Average for 5 years	148,833,800	98,446,100	50,387,700

It will be observed that the average balance in India's favour was slightly higher in the earlier quinquennium than in the later, mainly owing to the heavy fall in the first two years of the war. But if we take the three years 1916-17, 1917-18, 1918-19, when Indian Currency difficulties were most acute, the average balance of trade in India's favour, namely, 59,601,100£, will be seen to have been decidedly in excess of the average of the last three years of the pre-war period (1911-12 to 1913-14), viz., 53,429,200£. During the war imports into India were limited by the restriction of the available supplies from manufacturing countries in Europe. Imports from Germany and Austria ceased entirely on the outbreak of war, whilst the productive power of the United Kingdom and her Allies was more and more completely absorbed

on war industries as hostilities were protracted. There was consequently a large reduction in the quantity of goods imported into India, and it was only the rise in prices that maintained the value of the import trade and prevented its actual contraction. Exports from India, on the other hand, though restricted by difficulties of transport and finance, were in great demand. Supplies of raw materials and food-stuffs were required for the use of the Allied Powers, and the prices they realised were abnormally high. Enhanced values counteracted the shortage of freight and restrictions of finance, with the result already indicated, that the favourable trade balance was not only maintained, but even showed a tendency to increase.

The large balance of trade indebtedness in India's favour was reflected in the strength of exchange and the heavy demand on Government for currency. Besides this other special causes were at work during the war to intensify this demand. India formed the base of important military operations in Mesopotamia, Persia and East Africa. The Government of India were called upon to provide funds for the payment of British and Indian troops engaged, for the purchase of a large part of the supplies, and for other expenses incidental to a modern campaign, and also for meeting civil expenditure in occupied territory. The amount of the recoverable expenditure incurred by the Government of India on behalf of the Imperial Government between 1914 and 1919 exceeded 240,000,000£. In addition to the above, arrangements were made for the financing of purchases in India on behalf of certain Dominions and Colonies and for the provision of rupee

credits, amounting to 20 crores in 1917-18 and 1918-19, for American importers of Indian produce.

These exceptional disbursements created a heavy additional demand for Indian currency.

Under ordinary circumstances imports of gold and silver into India play an important part in adjusting India's favourable trade balance. However, war conditions brought about a deficiency in the satisfaction of this demand. The following table exhibits the value of India's imports of gold and silver for the five years 1909-10 to 1913-14 and the corresponding value in the years 1914-15 to 1918-19 :—

Net Imports into India of Treasure on Private Account.

	Gold coin and bullion.	Silver coin and bullion.	Total.
1909-10 ...	14,446,000	6,242,000	20,688,000
1910-11 ...	15,983,000	5,714,000	21,700,000
1911-12 ...	25,178,000	3,528,000	28,706,000
1912-13 ...	25,052,000	4,383,000	29,435,000
1913-14 ...	15,550,000	4,163,000	19,713,000
	<hr/>	<hr/>	<hr/>
Total ...	96,212,000	24,030,000	120,242,000
	<hr/>	<hr/>	<hr/>

Year.	Gold coin and bullion.	Silver coin and bullion.	Total.
1914-15...	5,637,000	6,676,000	12,313,000
1915-16...	3,267,000	3,717,000	6,984,000
1916-17...	2,797,000	-1,440,000	1,357,000
1917-18...	14,306,000	971,000	15,277,000
1918-19...	15,000	38,000	53,000
Total...	<u>26,022,000</u>	<u>9,962,000</u>	<u>35,984,000</u>

Several factors contributed to the remarkable decline in the import of the precious metals during the latter period.

The first, and by far the most important, factor was the difficulty of obtaining gold. The free market in London, on which India had been able to draw in the past, disappeared on the outbreak of war. Restrictions on the export of gold were imposed by belligerent Governments desirous of maintaining their stocks of the metal for war purposes, and India was accordingly only able to obtain very limited quantities. The relatively high imports in 1917-18, mainly from Japan and the United States, were largely caused by the difficulty of obtaining rupee exchange when the sales of Council Drafts were limited and controlled. The low figure for 1918-19 was mainly due to restrictions placed upon the export of gold from the United States.

The dearth of gold created a strong demand for silver. This would have tended normally to increase private imports of silver, which remained unrestricted until September 1917. But during this period of

the war the silver market was subject to conditions of supply and demand which severely limited the amount of the metal available for private purchasers.

There was, in the first place, a great shortage of supply. The world's production of silver from 1914 onwards exhibited a marked decline from the production of the preceding years. The question is fully discussed in the Report on the World's Production of Silver, by Professors Carpenter and Cullis, which is included in the Appendices to the Babbington Smith Report on Indian Currency. Their statistics are summarised in the following table :—

Mine Production of Silver (in Fine Ounces, 000 omitted).

Year.	Canada.	U.S.A.	Mexico.	Rest of world	Total of the world.
1910 ...	32,869	57,599	71,372	57,249	219,089
1911 ...	32,559	61,109	79,033	57,683	230,384
1912 ...	31,956	66,041	74,640	60,423	233,060
1913 ...	31,806	71,200	70,704	57,966	231,676
Average for 4 years 1910-13 ...	32,297	63,987	73,937	58,331	228,552
1914 ...	28,449	69,634	27,547	50,418	176,048
1915 ...	26,626	72,369	39,570	47,180	185,745
1916 ...	25,160	78,875	22,838	48,283	175,456
1917 ...	22,221	70,666	31,214	50,949	175,050
Average for 4 years 1914-17 ..	25,689	72,886	30,292	49,208	178,075

Approximately three-quarters of the world's silver is mined in North America and Mexico. The decrease in the Canadian Production due to the progressive exhaustion of the Cobalt field, was more than compensated by an increase in the production of the United States of America; and the key to the shortage of silver is to be found in Mexico, where, owing to political disturbances, the production of silver fell from an average of 73, 937,000 fine ounces for the years 1910-13 to an average of 30,292,000 fine ounces for the years 1914-17, a reduction of 43·6 million ounces out of a total reduction of 50·5 million ounces in the world's production. It will be noted that the fall in Mexican production though it coincided approximately with the beginning of the war, was not caused by the war, but by internal conditions in Mexico.

Had the world's demand for silver remained normal, the marked decline in supplies from 1914 onwards could hardly have failed to produce a rise in price and must have influenced the quantity of the metal available for India. But actually the world's demand for silver was unusually keen, particularly for coinage. The coinage of the British Empire, for example, absorbed nearly 108 million fine ounces of silver in the years 1915 to 1918 as against 30·5 million fine ounces in the years 1910 to 1913, and there is evidence that there were similar increases in the silver coinage of other countries.

There was also a heavy demand from China during the years, 1918-19. In the years 1914-17 China was a seller of silver and her net exports of the metal

amounted to over 77,000,000 standard ounces. From 1918, on the other hand, China was a persistent buyer, and in 1919 intensity of her demand was the dominating feature of the silver market.

We have seen that war conditions militated against the normal flow of the precious metals to India, where their imports would have assisted in the liquidation of the trade balance in India's favour. The burden of liquidating this balance was thus focussed on the Government of India and took the form of heavy demands for currency. The efforts made to meet these demands are indicated by the fact that between April 1916 and March 1919 over 300,000,000 standard ounces of silver were bought in the market for coinage in addition to 200,000,000 fine ounces purchased under the Pittman Act as compared with about 180,000,000 standard ounces between April 1904 and March 1907, when the Indian demand was specially heavy and continuous.

Table showing the silver purchases.

	In open Mar- ket (Standard Ounces).	From United State Dollar Reserve (equivalent in Standard Ounces).
1915-16	8,636,000	...
1916-17	124,535,000	...
1917-18	70,923,000	...
1918-19	106,410,000	152,518,000
1919-20 (to 30th Nov- ember 1919) ...	14,108,000	60,875,000
	<hr/>	<hr/>
Total ...	324,612,000	213,393,000
	<hr/>	<hr/>

These large purchases, combined with the decrease in the supply of silver and the increased demand from other quarters, reacted strongly on the price of the metal. In 1915 the highest price of silver in the London Market was $27\frac{1}{4}d.$ per standard ounce. By April 1916 it had risen to $35\frac{1}{8}d.$ And in December had reached $37d.$ The rise in price continued throughout the first part of 1917, and in August it exceeded $43d.$ This figure marks a point at which the exchange value of the rupee at $1s. 4d.$ is equivalent to its bullion value, and it was the rise in the price of silver to this figure, and above it that necessitated the alterations in exchange. In September 1917 the price of silver rose to $55d.$

In September 1917 the United States Government instituted control over the trade in silver and prohibited the export of the metal except under license. The effect of this control was to check the rising tendency of silver prices, and between October 1917 and April 1918 the London quotation varied between $41\frac{7}{8}d.$ and $49\frac{1}{4}d.$ per standard ounce. After the passing of the Pittman Act in April 1918 no export licenses were granted by the Government of the United States of America except for silver which was bought at $101\frac{1}{2}$ cents. or less, per fine ounce, and was required for purposes connected with the prosecution of the war. Similar measures were adopted by the Canadian Government, and the British Government fixed a maximum price for silver corresponding to the American maximum. These measures had the effect of stabilising the market price of silver at about a dollar per fine ounce, and

facilitated purchases for India. Between May 1918 and April 1919 the London price for silver ranged between $47\frac{3}{4}d.$ and $50d.$ per standard ounce. But when in May 1919 the United States Government and the British Government withdrew control over the silver market a further rise in price occurred, and in May the London price reached $58d.$ or more than double the maximum attained in 1915. Since that date, mainly on account of the exceptional demands from China, the price rose still further and on 17th December stood at $78d.$ per standard ounce.

It is necessary at this stage to refer to another factor which tended to raise the price of silver in the London market. During the war arrangements were concerted between the British and American Governments under which the sterling exchange on America was "pegged" at $4.76\frac{7}{16}$. Government support of exchange was withdrawn on 20th March 1919 and since that date the London-New York exchange moved heavily against the United Kingdom. On 17th December the £ sterling was equivalent to only 3.83 as against its par value of 4.8666. As America is the principal source of the world's silver supply the chief payments for the metal had to be made ultimately in that country. The sterling price of silver accordingly had to take account of the state of London-New York exchange, and any rise or fall in that exchange was reflected in the London price of silver. A fall in sterling exchange had thus the effect of raising the London quotation for silver. If, without any change in the gold price of silver as measured in dollars, the London quota-

tion rose in consequence of a fall in the London-New York exchange, purchases of silver for India were rendered impracticable unless the rupee exchange was also raised to redress the fall in sterling.

In the circumstances we have described the purchase of silver for coinage was attended with serious difficulty. This fact, taken in conjunction with the rising price at which purchases had to be effected, rendered the maintenance of the pre-war currency and exchange system impracticable. The Secretary of State was unable to maintain his offer to sell Council Drafts without limit of amount, while in view of the rise in the price of silver to a level higher than that which corresponds to a bullion value of 1s. 4d. for the rupee, he was compelled to raise the rate at which he sold the limited amount of Council Drafts which he was able to offer.

During November the amount of the weekly sales increased rapidly, and in the first fortnight of December they exceeded 5,000,000£. The rupees in the Paper Currency Reserve had then fallen to 14 crores, and though there was silver awaiting coinage and the Secretary of State had made large purchases, it was evident that the continuance of sales on this scale would endanger the convertibility of the note issue. To avoid this danger the Council Drafts sold by the Secretary of State were limited from 20th December 1916. The weekly amount, which varied between 120 lakhs, and 30 lakhs, was fixed from time to time mainly on a consideration of the rupee resources of the Government of India. The limitation of the amount of

Council Drafts at a time when the demand for remittance to India was exceptionally strong and no adequate alternative method of remittance available led to a divergence between the market rate of exchange and the rate at which the Drafts were sold. It also became evident that the remittance available might be insufficient to finance the whole of the Indian export trade, and it was essential that the exports required for war purposes should not be impeded. It was found necessary, therefore, to introduce certain measures of control. From 3rd January 1917 Council Drafts were sold at a fixed rate, which at the outset was 1s. 4 $\frac{1}{4}$ d. for immediate Telegraphic Transfers, and the sale was confined to banks and firms on the "Approved List," which included the chief exchange banks and a few large purchasers of Drafts. A little later these banks and firms were required to do business with third parties at prescribed rates and to apply their resources primarily to financing the export of articles of importance to the Allies for the purpose of carrying on the war, a list of which was drawn up by the Secretary of State. An appeal was at the same time addressed to other firms engaged in Indian trade to conduct their remittance transactions through the exchange banks.

This scheme of Government control constituted a complete departure from the system of free and unlimited remittance that prevailed before the war, and was naturally unpalatable to the commercial community. After the conclusion of the armistice the necessity for reserving finance for particular exports

ceased. The overbuying guarantee was in due course terminated, and the list of articles to which priority of export finance was given was also abolished.

The rise in the price of silver to a point at which the bullion value of the rupee exceeded 1s. 4d. made the sale of Council Drafts at the rates fixed on 3rd January 1917 impossible, except at a loss to Government. There was also a danger that if the rupee was undervalued it would tend to disappear from circulation, to be melted down and possibly to be exported. These tendencies probably existed in any case owing to the prohibition of the import of silver, but would have been aggravated by any undervaluing of the rupee. These considerations led to a series of changes in the rate of exchange. The first of these changes took place on 28th August 1917, when the rate for immediate Telegraphic Transfers was raised from 1s. 4½d. to 1s. 5d. Shortly afterwards the Government of India announced that the price at which Council Drafts would be sold in future would be based roughly on the price at which silver could be bought, and this policy continued to govern alterations in the rate of exchange up to the time when sales were given up. On 12th April 1918, in consequence of the agreement with the United States Government for the purchase of silver from the dollar reserve at 101½ cents per fine ounce, the price for immediate Telegraphic Transfers was raised to 1s. 6d. This rate was maintained until 13th May 1919, when the removal of the American control over the export of silver led to a rise in the price of the metal and necessitated a further rise to

1s. 8d. Later on the price of silver broke all records, and the rate was raised successively to 1s. 10d. on 12th August 1919, to 2s. on 15th September 1919, to 2s. 2d. on 22nd November 1919 and to 2s. 4d. on 12th December 1919.

To facilitate his operations, by excluding from the market Indian buyers who would otherwise have bought for non-coinage purposes, the import of silver into India on private account was prohibited on the 3rd September 1917. This measure, however, removed only a few of the smaller competitors for the world's diminished supply of silver, and the world demand remained so heavy that it was impossible to satisfy India's demand without tapping sources of supply outside the ordinary market. The Government of the United States of America, therefore, were approached through His Majesty's Government, on the subject of releasing a portion of the silver dollars held in their reserve. These representations met with a ready response, and on 23rd April 1918 the United States Congress passed the Pittman Act, which authorised the sale to other Governments of silver not exceeding 350,000,000 silver dollars from the holding in the dollar reserve. Of this amount the Government of India acquired about 200,000,000 fine ounces at $101\frac{1}{2}$ cents per fine ounce. Delivery in India began in July 1918, and was spread over a period of about a year. The timely help thus rendered by the United States Government in placing at India's disposal a supply of silver which represents considerably more than the world's annual mine production since 1914, enabled the Government of

India to tide over a very serious currency crisis and to maintain the convertibility of the note issue.

Measures for Conservation and Economy of Silver.

These special measures for obtaining silver were supplemented by endeavours to protect the currency against depletion by export or melting. From 29th June 1917 the use of silver or gold coin for other than currency purposes was made illegal, and from 3rd September 1917 the export of silver coin and bullion from India was prohibited except under license. Steps were also taken to economise silver by the issue of Rs. 2½ and one rupee notes, and by extending the use of nickel for coins of small denominations. At the end of March 1918 a new two-anna nickel coin was issued to replace the silver two-anna piece; and this new coin was so readily accepted that legislation was passed in September 1919 authorising the issue of four-anna and eight-anna nickel coins. The eight-anna nickel piece was not to be unlimited legal tender like the corresponding silver coin; it was made legal tender up to one rupee only.

Acquisition and Use of Gold.

In view of the shortage of silver it was important that the Government stock of gold should be as large as possible. With this object an Ordinance was issued on 29th June 1917, requiring all gold imported into India to be sold to Government at a price which, being based on the sterling exchange value of the rupee, took no account of the premium

on gold as compared with sterling. The gold so obtained was placed in the Paper Currency Reserve as a backing against the issue of additional notes. To enable the gold bullion and foreign coin held by the Government of India to be converted into sovereigns without the delay involved by sending it to Australia for coinage and return, a branch of the Royal Mint was opened in Bombay in August 1918. Pending the establishment of the Royal Mint, the gold mohur, a 15-rupee coin of the same weight and fineness as the sovereign, was minted as an emergency coin in order to supplement the stock of sovereigns available for issue as currency during the crisis of 1918. In all 2,110,000 gold mohurs and 1,295,000 sovereigns were coined in Bombay before the suspension of gold coinage in April 1919, when in view of difficulties in supplying the necessary staff it was decided to close temporarily the branch of the Royal Mint.

As we have mentioned above, the issue of sovereigns was stopped shortly after the outbreak of war. Owing to the demand for gold for social and industrial purposes and the restricted supply, the bazaar price of the sovereign gradually rose and remained considerably above its statutory rate of Rs. 15. This premium on gold precluded its use as currency except in emergencies, but on two occasions attempts were made to prevent a further diminution of the rupee stocks by the issue of gold. At the beginning of 1917, gold bullion of the value of about 4,000,000£ was sold and subsequently sovereigns to the amount of about 5,000,000£ were issued for the purchase of crops in certain areas. Again, from February

1918, sovereigns and gold mohurs amounting to nearly 6,000,000£ were issued for the financing of certain crops. The earlier issue of sovereigns was coincident with a large return of rupees from circulation, especially in those districts where sovereigns had been issued, but in 1918, the issue of gold was not followed by a return of rupees.

During the war the amount of gold which could be obtained by India was limited by the restrictions on its export from belligerent countries. The removal of the charge on the export of gold by the United States Government on 9th June 1919, and the freeing of the market for South African and Australian gold enabled India to obtain a larger supply. From 18th July 1919, immediate Telegraphic Transfers on India were offered against deposit at the Ottawa Mint of gold coin or bullion at a rate corresponding to the prevailing exchange rate. Very little gold was obtained from this source, and the arrangement was terminated on 15th September 1919. From 22nd August 1919, a limited amount of immediate Telegraphic Transfers on India was offered weekly for sale by competitive tender in New York, the proceeds of the sales being remitted to India in gold. Towards the end of October the demand for these transfers fell off and the sales were discontinued: The amount of gold obtained in this way was about 467,000 fine ounces. Arrangements were also made for the direct purchase of gold in London, the United States and Australia, and by 30th November 1919, about 2,485,000 fine ounces had been purchased. Finally, on 15th September 1919, the rate paid by the Government

of India for the acquisition of gold brought into India on private account was fixed so as to include the premium on gold over sterling as measured by the dollar-sterling exchange, and was varied from time to time approximately in accordance with the fluctuations of this exchange. The effect of the change in the basis of the acquisition rate was to re-establish an effective gold point, and to facilitate the import of gold in payment for exports as an alternative to the purchase of Council Drafts. The amount of gold imported on private account and tendered to the Government of India between the 15th September and 30th November was approximately 345,000 fine ounces.

In order to make a portion of the gold so obtained available for the use of the public of India, the Government of India announced, at the end of August 1919, that the sales of gold would be held fortnightly until further notice, and that in each of the first three months not less than the equivalent of the gold content of 1,00,000 sovereigns would be offered for sale. The amount offered at the second sale in November was increased to 5,00,000 tolas (equivalent to nearly 800,000 sovereigns), and it was announced that this amount would be offered fortnightly for the three months beginning from December. The immediate effect of these sales was a considerable drop in the bazaar price of gold. The price of English bar gold fell from Rs. 32·12 per tola (Rs. 20 per sovereign) on 15th August to Rs. 27 per tola (Rs. 16·5 per sovereign) on 22nd September, but by the end of October the market had recovered and the price was Rs. 29·12 per tola

(Rs. 18·11 per sovereign). At the beginning of December the price had again fallen to Rs. 28·5 per tola (Rs. 17·11 per sovereign). The total amount of gold sold up to 30th November amounted to about 2,159,000 tolas, being the equivalent of the gold content of about 3,439,000 sovereigns.

Increase in the Note Issue.

The difficulties of obtaining sufficient quantities of the precious metals for coinage purposes, and as backing for the issue of additional notes, made it necessary to increase the fiduciary portion of the note issue. Prior to the war the invested portion of the Paper Currency Reserve was limited by law to 14 crores of rupees. Since the beginning of November 1915 and till the appointment of the Babbington-Smith Committee the legal limit of the invested portion of the Reserve was modified seven times; and when the Committee was appointed it stood at 120 crores of which 14 crores could be invested in securities of the Government of India.

The following table gives us an idea of how this change was brought about:—

			Permissible Investment in India.	Permissible Investment in Britain.	Total.	
Act	V 1915	...	Temporary Amendment.	14	6	20
"	IX 1916	..	Do.	14	12	26
"	XI 1917	...	Do.	14	36	50
"	XIX 1917	..	Do.	14	48	62
"	VI 1918	...	Do.	14	72	86
"	II 1919	...	Do.	14	86	100
"	XXVI 1919	...	Do.	14	106	120

During this period the gross circulation of notes increased nearly threefold, while the percentage of metallic backing decreased by nearly one-half. The following table shows the growth of circulation and the changes in the composition of the Reserve :—

Date.	LAKHS OF RUPEES.					Percentage of total Metallic Reserve to gross Note Circulation.
	Gross Note Circulation.	COMPOSITION OF RESERVE				
		Silver.	Gold.	Securities.	Total.	
31st March 1914	66.12	20.53	31.59	14.00	66.12	78.9
" 1915	61.63	32.34	15.29	14.00	61.63	77.3
" 1916	67.73	23.57	24.16	20.00	67.73	70.5
" 1917	86.38	19.22	18.67	48.49	86.38	43.9
" 1918	99.79	10.79	27.52	61.48	99.79	38.4
" 1919	153.46	37.39	17.49	98.58	153.46	35.8
30th November 1919	179.67	47.44	32.70	99.53	179.67	44.6

The use of paper currency was further stimulated by the issue in December 1917 and January 1918 of notes for Rs. 2½ and one rupee respectively, to supplement the notes of Rs. 5 and higher denominations already in circulation. At first these notes of smaller denominations did not circulate to any appreciable extent, but later, when the supply of rupees

was curtailed, their circulation increased rapidly and on 31st March 1919 the gross circulation exceeded Rs. 184 lakhs in the case of the Rs. 2½ denomination and Rs. 1,050 lakhs in the case of the one-rupee denomination.

The encouragement of the use of notes by the provision of ample facilities for their encashment had been one of the most prominent features of the currency policy of the Government of India in the years preceding the outbreak of war, and this policy was continued as long as the supply of rupees was adequate. From 1916, owing to the causes which we have already indicated, the absorption of rupees was abnormally large, the figure for 1916-17 being Rs. 38,81 lakhs and for 1917-18 Rs. 27,86 lakhs; and on 1st April 1918 the silver balances had fallen to under 10½ crores or about 8 crores less than what was considered a safe minimum in the period before the war. The unfavourable war news in March and April 1918 caused a run on the Bombay Currency Office for the encashment of notes, and this was followed by similar difficulties elsewhere, notably in Lahore. Inconvertibility appeared to be inevitable, and was only averted by the energy and resource of the officers responsible, and by the timely announcement of the acquisition of the Pittman silver. By the first week in June the rupee balance had diminished to little more than 4 crores. From July the delivery of the Pittman silver commenced and the situation gradually improved, but the necessity for conserving their reduced stock of rupees had forced on the Government a reversal of their previous policy.

Facilities for the encashment of notes at District Treasuries were in a large degree withdrawn. The conveyance of specie by rail and river steamer was prohibited, and an embargo was placed on its transmission by post. Later, in January 1919 owing to the practical administrative difficulties of dealing in full with the demands for encashment at the Currency Offices during the busy season, the daily issues of rupees to single tenderers of notes were limited to a figure which made it practicable to satisfy large demands in part and small demands as a rule in full. The result of these restrictions was the substitution to a large extent of notes for rupees as the common circulating medium.

As a result of this limitation there was in many parts of India a considerable discount on notes, especially the new Rs. 2½ and one-rupee notes, when they were first issued in large quantities to replace rupees. Discounts as high as 15 per cent. and 19 per cent. were reported ; but the discount rapidly diminished when it was seen that the notes were freely accepted in payment of Government dues and when small coin was made available in large quantities. The reports received by the Government of India in the year 1919 do not show any discount on the notes as compared with silver coin exceeding 3 per cent.

Report of the Committee on Indian Exchange and Currency 1919.

Such were the conditions when the Government appointed the Babbington-Smith Committee to report on the course to be adopted by them.

The Committee was appointed on the 30th March 1919 "to examine the effect of the war on the Indian Exchange and Currency System and practice and upon the position of the Indian note-issue, and to consider whether, in the light of this experience and of possible future variations in the price of silver, modifications of system in practice may be required; to make recommendations as to such modifications, and generally to the policy that should be pursued with a view to meeting the requirements of trade, to maintaining a satisfactory monetary circulation, and to ensuring a stable Gold Exchange Standard."

As the terms of reference definitely ask the Committee: to make recommendations with a view to ensuring Gold Exchange Standard they, after going exhaustively into all the facts of currency and exchange during the war, made the following recommendations to "ensure Gold Exchange Standard," early in February 1920.

(1) The rise in exchange, in so far as it has checked and mitigated the rise in Indian prices, has been to the advantage of the country as a whole, and it is desirable to secure the continuance of this benefit. (Para. 41.)

(2) Indian trade is not likely to suffer any permanent injury from the fixing of exchange at a high level.

If, contrary to expectation, a great and rapid fall in world prices were to take place, and if the costs of production in India fail to adjust themselves with equal rapidity to the lower level of prices, then it

might be necessary to consider the problem afresh. (Para.) 51.

(3) The development of Indian industry would not be seriously hampered by a high rate of exchange. (Para. 52.)

(4) The gain to India of a high rate of exchange for meeting the Home Charges is an incidental advantage that must be taken into consideration. (Para. 53.)

(5) To postpone fixing a stable rate of exchange would be open to serious criticism and entail prolongation of Government control.

The balance of advantage is decidedly on the side of fixing the exchange value of the rupee in terms of gold rather than in terms of sterling. (Paras. 56—7.)

(6) The stable relation to be established between the rupee and gold should be at the rate of Rs. 10 to one sovereign, or, in other words, at the rate of one rupee for 11.30016 grains of fine gold, both for foreign exchange and for internal circulation. (Para. 59.)

(7) If silver rises for more than a brief period above the parity of 2s. (gold) the situation should be met by all other available means rather than by impairing the convertibility of the note-issue. Such measures might be (a) reduction of sale of Council Bills ; (b) abstention from purchase of silver ; (c) use of gold to meet demands for metallic currency. If it should be absolutely necessary to purchase silver, the Government should be prepared to

purchase even at a price such that rupees would be coined at a loss. (Para. 59.)

(8) Council Drafts are primarily sold not for the convenience of trade, but to provide for the Home Charges in the widest sense of the term. There is no obligation to sell drafts to meet all trade demands ; but, if without inconvenience or with advance the Secretary of State is in a position to sell drafts in excess of his immediate needs, when a trade demand for them exists, there is no objection to his doing so, subject to due regard being paid to the principles governing the location of the reserves.

(9) Council Drafts should be sold, as now, by open tender at competitive rates, a minimum rate being fixed from time to time on the basis of the sterling cost of shipping gold to India. At present this rate will vary ; but when sterling is again equivalent to gold, it will remain uniform. (Para. 61.)

(10) The Government of India should be authorised to announce, without previous reference to the Secretary of State on each occasion, their readiness to sell weekly a stated amount of Reverse Councils (including telegraphic transfers during periods of exchange weakness at a price based on the cost of shipping gold from India to the United Kingdom. (Para. 62.)

(11) The import and export of gold to and from India should be free from Government control. (Para. 65.)

(12) The Government should continue to aim at giving the people the form of currency which they demand, whether rupees, notes, or gold ; but gold

can be employed to the best advantage in the Government reserves, where it is available for meeting the demand for foreign remittance.

It would not be to India's advantage actively to encourage the increased use of gold in the internal circulation, but it may for some time be difficult to meet all demands for metallic currency in rupees, and a more extensive use of gold may be necessary. In order that confidence may not be disturbed by exceptional issues, the issue of gold coin in moderate quantities should be one of the normal methods of meeting demands for currency. (Para. 66.)

(13) The Bombay Branch of the Royal Mint should be re-opened for the coinage of sovereigns and half-sovereigns and facilities should be afforded to the public for the coinage of gold bullion and for the refining of gold. (Para. 67.)

(14) The obligation of the Government to give rupees for sovereigns should be withdrawn. (Para. 68.)

(15) Opportunities should be afforded to the public to exchange sovereigns in their possession at the rate of 15 rupees per sovereign at the time of the introduction of the new ratio. Similar opportunities should be given to holders of the gold mohur which should eventually be demonetised. (Para. 69.)

(16) The prohibition on the import of silver should be removed as soon as is convenient. (Para. 70.)

(17) When the prohibition on the import of silver is removed the import duty should also be removed,

unless the fiscal position demands its retention.
(Para. 71.)

(18) The prohibition on the export of silver should be retained for the present with a view to the protection of the silver currency from depletion by export.

If the silver mined in India should cease to be purchased by the Government, its export should be permitted under licence.

(19) No recommendation is made for modifying the present practice of regulating the purchase of silver for coinage. (Para. 74.)

(20) As regards the fiduciary portion of the reserve, the holding of securities issued by the Government of India should be limited to 20 crores. The balance should be held in securities of other Governments comprised within the British Empire, and of the amount so held not more than 10 crores should have more than one year's maturity, and all should be redeemable at a fixed date. The balance of the invested portion above these 30 crores should be held in short-dated securities, with not more than one year's maturity, issued by Governments within the British Empire.

The existing permissive maximum of 120 crores should be retained for a limited period.

(21) With a view to meeting the seasonal demand for additional currency provision should be made for the issue of notes up to five crores over and above the normal fiduciary issue as loans to the Presidency

Banks on the security of export bills of exchange. (Para. 80).

(22) The silver and gold in the Paper Currency Reserve should be held in India except for transitory purposes. (Para. 81).

(23) As soon as circumstances permit, free facilities for the encashment of notes should be given, and the restrictions imposed during the war should be withdrawn. The Government should have the option of redeeming its notes in full legal tender gold or silver coin. (Para. 82).

(24) No limit can yet be fixed to the amount up to which the Gold Standard Reserve should be accumulated, and when profits again accrue on the coinage of rupees they should be credited in their entirety to the Reserve. (Para. 83).

(25) Under present conditions Government should hold such gold as they obtain in the Paper Currency Reserve rather than in the Gold Standard Reserve. The Gold Standard Reserve should when practicable contain a considerable proportion of gold; but the most satisfactory course at present lies in keeping the reserve as liquid as possible by the holding of securities with early dates of maturity.

The amount of securities in the reserve with a maturity exceeding three years should not be increased, and the aim should be to hold all the invested portion of the reserve in securities issued by Governments within the British Empire (other than the Government of India) and having a fixed rate of maturity of not more than 12 months. (Para. 84).

(26) A portion of the gold in the Gold Standard Reserve, not exceeding one-half, should be held in India ; the sterling investments should continue to be held in London. (Para. 85).

The above recommendations of the majority of the Committee were accepted by the Secretary of State as expressing the goal towards which Indian Administration should be directed. By the announcements of February 2, 1920, the recommendations were given effect to in India, and this abandoned the old parity of 7·53344 grains per rupee for the new parity of 11·30016 grains troy.

Soon, however, the expectations of the Committee were defeated, and the exchange began to take a course very much similar to that pointed out by Mr. Madon in his unpublished memorandum. On the 11th, February 1920, the price of silver in London had reached the record figure of 89½*d.* per oz. by the 1st of April, however, the price had fallen to 72½*d.* owing principally to sales on account of China. There were also other factors which contributed to the re-action ; viz. the strengthening of the sterling exchange with New York, the announcement of the intention to reduce the fineness of the United Kingdom silver coinage, and large sales of demonetised silver coin from the Continent. The fall in price continued until 44*d.* was reached on the 15th June. There was a temporary revival in the price of silver, in the 3rd week of June, when the United States Mint began to accept tenders made under the Pittman Act. There was a good deal of speculative buying in the Indian Bazaars. This coupled with a

weakening of the sterling-dollar exchange raised the London price to 63 $\frac{3}{4}$ d. by the 20th August. The price remained at or about 60d., until the end of September, but early in October it began to weaken. From the 19th November the fall became rapid, China was now known to be in the grip of a severe famine, and large quantities of demonetised coin continued to come in from the continent of Europe. The quotation at the end of December 1920 was 40 $\frac{7}{8}$ d.

Coupled to these unprecedented and unexpected fluctuations in the price of silver, came a strong balance of trade against India. The year 1919-20, was a period of high prices and feverish activity in trade. The year's trade established a record for the value of exports and imports alike, and also a record figure for the excess of the former over the latter. Conditions in the year 1920-21 were very different. The trade boom which succeeded the Armistice proved to be short lived. In India the consequences were seen in the stagnation of her export trade through the falling off in the purchasing power of her principal customers. The situation was further aggravated by the action of Indian importers, who ordered large quantities of goods from foreign countries in view of the favourable rate of exchange adopted by the Government of India. To this was added a speculative element in the shape of large transfer of funds from India to England at the high rate of 2s. to the rupee. As a result of all these factors the demand for sterling remittances first began to show itself in January 1920. (Most of this demand was of a speculative character. There were rumours in the air that the Committee would recommend the rate

of 2s. gold, and as the prevailing rate at the time was, between 28*d.* per rupee on the 1st of January 1920, and 32·5*d.* on the 1st of February 1920, therefore people wanted to take advantage of this. By the mere transfer of funds from India to England at the rate of 32·5*d.* and then their calling back at the rate of 24*d.* they hoped to make the profit of 8·5*d.* on the transaction, which translated into terms of the rupee at the new legal rate would give them something like annas 5 for every rupee transferred from India sometime in January and called back later in February or March. There were others, who wanted to take advantage of this favourable rate to transfer there capital funds permanently from India). Sterling bills were first offered for sale in India on the 2nd January, and during the remainder of that month the rate at which they were sold was based on the rate of 2s. 4*d.* which had been fixed for the sale of Council Bills. But with effect from the 5th February, the rate was founded on a ratio of Rs. 10 to the sovereign, allowance being made for the depreciation of sterling in terms of gold. To meet this heavy outward demand Government continued to sell Reverse Councils till the 28th of September 1920. In all about 55 million £ were sold.

The following table gives an idea of the sales of Reverse Councils.

Date of Sale.	Rate for Inmediates.	Amount sold at each sales.	Progressive total of amount sold.
2nd January 1920 ...	s. d. 2 3 $\frac{29}{32}$	770	770
8th " " ...	2 3 $\frac{29}{32}$	990	1,760
15th " " ...	2 3 $\frac{29}{32}$	300	2,060
22nd " " ...	2 3 $\frac{29}{32}$	2,000	4,060
29th " " ...	2 3 $\frac{29}{32}$	1,334	5,394
5th February " ...	2 8 $\frac{15}{16}$	2,000	7,394
12th " " ...	2 10 $\frac{27}{32}$	5,000	12,394
19th " " ...	2 10 $\frac{7}{32}$	2,000	14,394
26th " " ...	2 10 $\frac{5}{16}$	2,000	16,394
3rd March " ...	2 10 $\frac{1}{32}$	2,000	18,394
11th " " ...	2 8 $\frac{3}{32}$	2,000	20,394
18th " " ...	2 7 $\frac{5}{16}$	2,000	22,394
25th " " ...	2 5 $\frac{31}{32}$	2,000	24,394

Table—(continued).

Date of Sale.	Rate for Immediates.		Amount sold at each sales.	Progressive total of amount sold.
	s.	d.		
31st March 1920 ...	2	$4\frac{13}{16}$	1,988	26,382
1st April ,, ...				
8th ,, ,, ...	2	$4\frac{3}{32}$	2,000	28,382
15th ,, ,, ...	4	$4\frac{7}{16}$	2,000	30,382
22nd ,, ,, ...	2	$4\frac{17}{32}$	2,000	32,382
29th ,, ,, ...	2	$5\frac{7}{8}$	1,000	33,382
6th May ,, ...	2	$3\frac{3}{16}$	1,000	34,382
13th ,, ,, ...	2	$5\frac{11}{32}$	1,000	35,382
20th ,, ,, ...	2	$5\frac{1}{2}$	1,000	36,382
26th ,, ,, ...	2	$5\frac{13}{16}$	1,000	37,382
3rd June ,, ...	2	5	1,000	38,382
10th ,, ,, ...	2	$4\frac{27}{32}$	1,000	39,382
15th ,, ,, ...	2	$4\frac{5}{8}$	1,000	40,382
24th ,, ,, ...	1	$11\frac{19}{32}$	1,000	41,382
1st July ,, ...	1	$11\frac{19}{32}$	1,000	42,382
8th ,, ,, ...	1	$11\frac{19}{32}$	1,000	43,382

Statement of Sales of Reverse Councils from January to
September 1920.—(continued).

Date of sale.	Rate for Immediates.		Amount sold at each sales.	Progressive total of amount sold.
	s.	d.		
15th July 1920 ...	1	11 $\frac{19}{32}$	1,000	44,382
22nd „ „ ...	1	11 $\frac{19}{32}$	1,000	45,382
29th „ „ ...	1	11 $\frac{19}{32}$	1,000	46,382
5th August „ ...	1	11 $\frac{19}{32}$	1,000	47,382
12th „ „ ...	1	11 $\frac{19}{32}$	1,000	48,382
19th „ „ ...	1	11 $\frac{19}{32}$	1,000	49,382
26th „ „ ...	1	11 $\frac{19}{32}$	1,000	50,382
2nd September „ ...	1	11 $\frac{19}{32}$	1,000	51,382
7th „ „ ...	1	11 $\frac{19}{32}$	1,000	52,382
13th „ „ ...	1	11 $\frac{19}{32}$	1,000	53,382
21st „ „ ...	1	11 $\frac{19}{32}$	1,000	54,382
28th „ „ ...	1	11 $\frac{19}{32}$	1,000	55,382

Coupled with this, the note circulation between 1st February 1920 and 15th September 1920 had been reduced from Rs. 185 crores to Rs. 158 crores. But even this substantial withdrawal of currency proved ineffective to maintain exchange in view of the abnormal activity in the imports of foreign goods and the absence of any support from exports. The Government of India therefore decided after the sale of the 28th September to withdraw for the time being their offer of sterling drafts on London. During the remainder of the year no further sales were made, and the exchange value of the rupee deprived of the support rapidly declined, as is evident from the table below :

*Table of Exchange Rates, October 1920 to March 1921.
(Quotation for Demand Draft in Calcutta.)*

Date.			Quotation.	
			s.	d.
1st	October	1920	1	9 $\frac{3}{8}$
15th	"	"	1	7 $\frac{1}{2}$
1st	November	"	1	7 $\frac{3}{8}$
15th	"	"	1	7 $\frac{1}{8}$
1st	December	"	1	6 $\frac{3}{8}$
15th	"	"	1	5 $\frac{1}{8}$

Table—(continued).

Date.			Quotation.	
			s.	d.
1st	January	1921	1	5¼
15th	„	„	1	5¾
1st	February	„	1	4¼
15th	„	„	1	4½
1st	March	„	1	3¾
15th	„	„	1	3½

A further step had to be taken in March 1920 in view of the unprecedented sales of Reverse Councils which the Secretary of State was unable to meet entirely from his Treasury Balances. The Secretary of State was compelled at that time to begin selling out a portion of the sterling securities in the Paper Currency Reserve, and in the absence of special legislation permitting increased investments in Indian Securities, it would have been necessary to cancel notes to the full rupee equivalent of the sterling securities sold. As such action would have been likely to cause a severe monetary crisis in India, temporary legislation was passed in March 1920 continuing the existing figure of Rs. 120 crores as the limit of permissible investment but abolishing the existing restrictions as to the locale of the investments

and their sterling or rupee character. This Act (No. XXI of 1920) was to remain in force up to 1st October 1920, and it was replaced in the autumn session of the Imperial Legislative Council by the Indian Paper Currency Amendment Act (No. XLV of 1920) which received the assent of the Governor-General in Council on the 17th September and came into force on the 1st October. This Act gave effect to the recommendations of the Currency Committee regarding the eventual statutory constitution of the Paper Currency Reserve, while providing for a temporary transitional period of adjustment. The Act provides in the first place for the issue of currency notes against sovereigns and half-sovereigns at the new rate of Rs. 10 per sovereign and against gold bullion at the corresponding rate of one rupee for 11·30016 grains troy of fine gold. In the second place it lays down the permanent constitution of the Reserve, which is to include :—

- (a) The Metallic Reserve, consisting of the total amount represented by the sovereigns, half sovereigns, rupees, silver half-rupees, and gold and silver bullion for the time being held on that account by the Secretary of State for India in Council and by the Governor-General in Council, provided that the gold coin and bullion held by the Secretary of State in the metallic reserve shall not exceed Rs. 5 crores in value.
- (b) The Securities Reserve, consisting of the securities for the time being held on

that account by the Secretary of State for India in Council and the Governor-General in Council ; provided that—

- (i) the securities held by the Secretary of State shall not be of longer maturity than one year from the date of purchase, and
- (ii) the securities held on behalf of the Governor-General in Council shall be securities of the Government of India and shall not exceed in amount Rs. 20 crores. Not more than Rs. 12 crores of this amount may be in securities created by the Government of India and issued to the Controller of the Currency.

Further, the Act prohibits the issue of currency notes if such issue would have the effect of raising the amount of notes in circulation to more than twice the amount of the metallic reserve. This statutory constitution of the Paper Currency Reserve is to be brought into force on a day appointed by the Governor-General in Council as soon as conveniently may be after the relation of the amount of the currency notes in circulation to the amount of the Reserve has been brought into conformity with the provisions above outlined, and the metallic reserve is not less than 50 per cent. of the currency notes in circulation. During the intermediate period the Act provides for a temporary constitution of the Reserve under which the securities of the Government of India held in the Reserve shall be limited to Rs. 85

crores, and so long as the 'created securities' exceed Rs. 12 crores, all interest derived from the securities in the Reserve shall with effect from the 1st April 1921 be applied in reduction of such excess holdings.

Further, the Act gives power to the Governor-General in Council to issue currency notes up to Rs. 5 crores in value against Bills of Exchange maturing within 90 days from their date of issue and under such conditions as the Governor-General in Council may under general or special order prescribe.

As a result of the passing of the Act, the gold and the sterling securities held in the Paper Currency Reserve were revalued on the 1st October at the new rate of Rs. 10 per sovereign, or Re. 1 for 11·30016 grains of fine gold. The deficiency in the Reserve resulting from the revaluation was made up by 12 months' Treasury Bills of the Government of India issued by the Controller of the Currency to the Reserve.

Conditions during the financial year 1921-22 improved a little, but the downward tendency of the exchange value of the rupee was maintained. The quotations for Demand Drafts in Calcutta are given below :

Date.			Quotation.	
			s.	d.
1st April 1921	1	3 $\frac{5}{8}$
15th ,,	1	3 $\frac{5}{8}$
1st May	1	3 $\frac{5}{8}$

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Table—(continued).

Date.		Quotation.	
		s.	d.
15th May	1921	1	3½
1st June	"	1	3¼
15th "	"	1	3½
1st July	"	1	3¾
15th "	"	1	3¼
1st August	"	1	3½
15th "	"	1	3¾
1st September	1921	1	4¾
15th "	"	1	4½
1st October	"	1	5½
15th "	"	1	5¾
1st November	"	1	4¾
15th "	"	1	4¼
1st December	"	1	4
15th "	"	1	3¾
1st January	1922	1	4
15th "	"	1	3¾
1st February	"	1	3¾
15th "	"	1	3¾
1st March	"	1	3½
15th "	"	1	3½

The bullion value of the rupee, which varied between 15·932*d.* on the 1st October 1921 and 12·030*d.* on the 1st March 1922 was generally 2*d.* to 3*d.* below the exchange rate. From April to July 1921 the rupee sterling exchange continued very weak, and on no single date did it reach the old

parity of 1s. 4d. The rise which commenced in August reflects the improvement in the balance of trade. The excess of imports over exports of merchandise was smaller in July and August than in the preceding months, and in September for the first time after many months equilibrium was established. The prospects of the monsoon were practically assured by the end of September and the exchange rose as far as 1s. 5 $\frac{3}{4}$ d. At this point some demand for remittance set in and the rate weakened slightly, but it was not until the middle of October that the balance of trade again became distinctly unfavourable in consequence mainly of the collapse of the German mark and the slowing down of exports from India to Germany. Throughout November and December the rupee exchange remained weak and closed well below the old parity of 1s. 4d. During the period January to March 1922, this weakness was intensified and in spite of a small balance of exports over imports of merchandise in the last two months of the year, the low record of 1s. 2 $\frac{15}{16}$ d. was touched on the 24th February. The most powerful cause operating to depress exchange during these months was the heavy import both of gold and silver. We have also, however, to remember that between the 1st November 1921 and the 31st March 1922 the gold equivalent of the pound sterling had appreciated, as reflected in the London—New York cross rate, which rose from 392 $\frac{5}{8}$ to 437 $\frac{1}{2}$, a rise of 11 $\frac{1}{2}$ per cent. In the same period the sterling value of the rupee declined from 1s. 4 $\frac{1}{2}$ d. to 1s. 3 $\frac{3}{16}$ d. or approximately 8 per cent. There was therefore an apprecia-

tion in the gold value of the rupee in spite of its decline in comparison with sterling.

Throughout the year 1922-23 the bullion value of the rupee was considerably below its exchange value, and the price of silver ceased to have any direct effect on exchange, though the indirect effect of the low price level was to stimulate imports and weaken exchange. Quotations of demand drafts in Calcutta on different dates were as follows :—

Date.			Quotation.	
			<i>s.</i>	<i>d.</i>
1st April 1922	...	...	1	$3\frac{1}{8}$
15th „ „	...	...	1	$3\frac{1}{4}$
1st May „	...	...	1	$3\frac{1}{4}$
15th „ „	...	...	1	$3\frac{3}{4}$
1st June „	...	...	1	$4\frac{1}{16}$
15th „ „	...	...	1	$3\frac{17}{32}$
1st July „	...	...	1	$3\frac{5}{8}$
15th „ „	...	...	1	$5\frac{3}{32}$
1st August „	...	...	1	$3\frac{27}{32}$
15th „ „	...	...	1	$3\frac{5}{8}$

Table—(continued).

Date.				Quotation.	
				<i>s.</i>	<i>d.</i>
1st September	1922	...	...	1	$3\frac{17}{32}$
15th	,,	,,	...	1	$3\frac{9}{16}$
1st October	,,	,,	...	1	$3\frac{9}{16}$
15th	,,	,,	...	1	$3\frac{5}{8}$
1st November	,,	,,	...	1	$3\frac{11}{32}$
15th	,,	,,	...	1	$3\frac{25}{32}$
1st December	,,	,,	...	1	$3\frac{29}{32}$
15th	,,	,,	...	1	4
1st January	1923	...	...	1	$4\frac{5}{32}$
15th	,,	,,	...	1	$4\frac{3}{16}$
1st February	,,	,,	...	1	$4\frac{9}{16}$
15th	,,	,,	...	1	$4\frac{11}{32}$
1st March	,,	,,	...	1	$4\frac{3}{16}$
15th	,,	,,	...	1	4

The year opened with bullion exchange the dominating factor, and had it not been for a steady supply of export bills in Calcutta the rate would probably have fallen to 1s. 3d. In May there was a firmer tendency, due mainly to the increasing excess of exports of merchandise over imports, and for the next six months exchange kept remarkably steady between 1s. 3½d. and 1s. 3¾d. By the middle of November the bullion demand had declined and export bills were offering in considerable quantities. As a result of this exchange strengthened to about 1s. 5d. The advance was maintained in December. The announcement of the sale of Councils at the beginning of January produced a temporary weakness but during this month the dominating factors were the large exports of cotton and the tightness of money. In spite of the large imports of bullion, exchange rose steadily until on the 23rd of January it went up to 1s. 5d. On the 26th of January the re-action again set in and in a few days the exchange dropped to 1s. 4½d. The intensity of demand for financing cotton now decreased. Meanwhile imports of bullion continued on an unprecedented scale. The result was a gradual weakening of exchange during February and March, until at the end of the year it had receded almost to 1s. 4d.

Throughout the year 1923-24 the exchange maintained a more or less even tenor and, after that period, has been tending upwards.

The following table gives an idea of the condition of exchange :—

Quotation for Demand Draft in Calcutta.

Date.			Quotation.	
			s.	d.
1st April	1923	...	1	$4\frac{1}{8}$
15th	"	...	1	$4\frac{5}{32}$
1st May	"	...	1	$4\frac{9}{16}$
15th	"	...	1	$4\frac{3}{32}$
1st June	"	...	1	$4\frac{1}{16}$
15th	"	...	1	$4\frac{3}{32}$
1st July	"	...	1	$4\frac{1}{8}$
15th	"	...	1	$4\frac{1}{8}$
1st August	"	...	1	$4\frac{1}{16}$
15th	"	...	1	$4\frac{1}{16}$
1st September	1923	...	1	$4\frac{1}{32}$
15th	"	...	1	$4\frac{5}{32}$
1st October	"	...	1	$4\frac{9}{32}$
15th	"	...	1	$4\frac{3}{8}$
1st November	"	...	1	$4\frac{15}{32}$
15th	"	...	1	$4\frac{27}{32}$

Table—(continued).

Date.			Quotation.	
			s.	d
1st December 1923	...	...	1	5 $\frac{5}{32}$
15th „ „	...	...	1	5
1st January 1924	...	...	1	5 $\frac{3}{16}$
15th „ „	...	...	1	5 $\frac{5}{32}$
1st February „	...	...	1	5 $\frac{3}{16}$
15th „ „	...	...	1	5
1st March „	...	...	1	4 $\frac{23}{32}$
15th „ „	...	...	1	4 $\frac{29}{32}$
1st April „	...	...	1	4 $\frac{11}{16}$
15th „ „	...	...	1	4 $\frac{25}{32}$
1st May „	...	...	1	4 $\frac{23}{32}$
15th „ „	...	...	1	4 $\frac{27}{32}$
1st June „	...	...	1	4 $\frac{27}{32}$
15th „ „	...	...	1	4 $\frac{31}{32}$
1st July „	...	...	1	5
15th „ „	...	...	1	5 $\frac{3}{32}$
1st August „	...	...	1	5 $\frac{15}{32}$
15th „ „	...	...	1	5 $\frac{1}{32}$

Comparing the exchange quotations for the period 1923-24 and after with the quotations for the previous financial year, we find a continuous strengthening of exchange. This has been mainly due to the surplus of exports of merchandise over imports and the policy of deflation which Government appear to be following. Whereas in the year 1921-22, there was an adverse balance on the whole, and in the year 1922-23 a favourable balance of about 62 crores ; during the year 1923-24, the balance in favour of India was more than 110 crores. And this tendency of strong balance of trade in favour of India has not only been maintained, during the present financial year, but has become even stronger, with the result that the exchange has been rising of late. How long this tendency will be maintained, is for the future to answer, and I would not dabble into any serious forecast. But the adoption of the Dawes Report by the Western Powers, the gradual evacuation of the Ruhr by the French, the entering of Germany in the League of Nations as a first class power, and the establishment of friendly relations between Russia and other European countries, all point to an approach of settled conditions of life and trade. India is bound to be influenced by this gradual re-settlement of Europe, which has ever been a strong purchaser of her raw materials.

CHAPTER III

DEDUCTIONS

A rapid historical survey of Currency Policy in India since the closing of mints to the free coinage of silver in 1893, leads me to say that perhaps, if at all, the guiding principle underlying that policy was the convenience of London Money Market, otherwise the lack of a consistent policy seems to have been the chief characteristic of our movements in that field. But in fairness to the Government of India I must add that, they have seldom followed this peculiar policy out of their own free will. They have been invariably led into it by the Home Government ; and it is this lack of policy, this disregard of Indian interests that has been very largely responsible for the many sins of omission and commission for which the Government of India have, from time to time, been attacked in and outside the Councils. That the above is not a mere phantom of my diseased imagination, should be clear from the history given in the last Chapter, as well as from the speeches and writings of other responsible people on this subject. Thus Sir James L. Mackay while opening a general meeting of the Indian Currency Association on the 25th August 1892 remarked as follows :

“The Standard and the Economist have had articles upon us. As these papers are among the strongest supporters of the gold standard for England and other Western Nations, one would naturally expect that they would give their support in advocating a gold standard

for India ; but it is not so. They deny to a great extent the existence of the alleged evils ; they pour cold water on the idea of a gold standard for India ; they expatiate on the merits and compensations of a depreciating standard ; and as I read through their articles I expected every moment to find them advocating a silver standard for England and urging the English people to secure without delay the un-mixed blessings of a pound sterling which is worth only ten shillings. But they do not take this plunge. Silver would ruin England ; but, as for India that is a different thing. It is not difficult to see what is at the bottom of this inconsistency. Lombard Street fears for her gold. The gold reserve in England is extremely small ; if India adopts a gold standard, there will undoubtedly be demands of some importance from time to time on that reserve, and Lombard Street fears the temporary rise of the rate of discount and disturbances of the London Money Market that will then follow. I blame no man and no class of men for advocating measures which they believe will advance their own interests, but I think the advocacy should be open and above board."

Or again Lord Meston (then Sir James) while giving evidence before the Chamberlain Commission said : " We are constantly being told that we have

been bolstering up the inefficient gold reserves in London from a selfish point of view, that we have been raising prices by coining silver when it was unnecessary ; that we have been giving London cheap credit and giving no assistance to the trade of India ; also that we have been helping other countries with our gold—through the international agency of London ; and that we have been parties to allowing the taxpayers' money in India to be used by the Bank of England as an excuse for not raising rates and so on. All these accusations come to us at a very close range. We are not secluded body in any sense, but we are exposed to the most direct and immediate intercourse with very acute critics". Or again take the following from some leading articles on this subject in the Times of India :

“ No one with an adequate sense of responsibility and full knowledge of the facts will assert that the system vindicated itself then. The most that can be said for it is that it escaped disaster, but only by a narrow margin. Complete failure was happily averted, but it took two years to recover from the shock. That recovery was due to good fortune, mainly in the shape of high prices of exports, and not to anything inherently good in the system itself. We cannot always depend on retaining, under existing arrangements, a margin of safety in a time of stress and trial, nor on a run of luck to help us out of difficulties such as we encountered subsequently to the storm of 1908. The fact is, and the sooner it is recognised the better it will be for all concerned, that a system of currency which encourages the public to go on absorbing token coins without limit and with-

out a gold currency, and which has to stand up against an administration which not only transmits gold belonging to the currency to London for investment but also prevents as far as it can the entry of gold, can not be expected to vindicate itself in the long run. It will be a reproach to England if the influence of the London Market is any longer suffered to stand between India and the gold to which she is rightfully entitled."

" We commented a few days ago on the visit to Bombay of the officials charged with the enquiry into the causes of the rise in prices in India. We now hear that they had put before them during their visit an explanation of the great rise in prices that took place from 1904 to 1907 which, we think, must be taken as establishing beyond reasonable doubt that those responsible for the management of Indian Currency affairs directly, and to a very large extent, contributed to the increased prices by the free use made of India's currency gold in the purchase of silver. The gold came to India or was passed on to London on account of India in payment of the excess of exports over imports of merchandise. It was the only way by which, under existing conditions, the balance of trade could be adjusted and the gold was an actual addition to the currency. But all the gold paid to India was not retained in India. Enormous quantities of it were used to purchase silver, and the gold used in this way was largely the cause of the boom in trade and the elevation in prices that ensued in other countries, the rising prices carrying with them to higher levels prices in India. It is clear that if the gold had been retained

in India the loss of it by the countries whence it came would have had the effect of checking the rising tendency of prices by restricting credit based on gold and thereby restraining any ascending tendency of prices supported by credit. Such a check on prices elsewhere would have tended to check a rise in corresponding prices in India. As it was, the gold was re-exported that silver might be imported in its place. It did not go out as it had come in, in settlement of trade balances. It went out for the express purpose of buying silver, and it goes without saying that when gold in bulk sets out on such a mission the effect on markets must be very great. It affords a good illustration of the results that may be produced when the impulse to a movement in prices springs from the money side of the price equation when the money set in motion is actual gold. The effect on prices in India of the loss of the gold was probably nil, as the currency was not depleted. The public were supplied with coin of equivalent face value in place of the gold. But what was the effect elsewhere? Most of the gold went to America for most of the silver which comes to market is produced there. It was almost as if the silver mines had been transformed into gold mines. Is it surprising that there was a boom in trade in the United States and consequent high prices? And is it possible to deny that that boom and high prices were largely due to the enormous purchases of silver with India's gold? England also got a share of the gold, and enjoyed as did other countries a large share in trade boom. The rising price of silver raised the sterling exchanges of silver standard countries and

that by itself was enough to cause considerable activity in trade and a tendency to higher prices in cotton manufactures and other merchandise, for it need hardly be said that in such countries a high exchange encourages imports. India too had a good share of the trade activity. Her trade and industries flourished, and she obtained excellent prices for much of her produce and her manufactures. In former days in India before the Mints were closed to the free coinage of silver favourable trade balances would not have had effects as above described. The price of silver would have arisen, causing a rise in the sterling exchanges which would have stimulated the import trade and put a drag on exports ; but as regards prices in India these would have tended to fall. Here we find the clue to all the trouble. Our currency authorities were blind to the altered conditions brought about by the attainment of a gold standard. They appear to have entertained the delusion that it was immaterial whether additions to the currency were in silver or in gold."

If all our difficulties have been due to the absence of a definite ideal and to the subordination of Indian interests to the interests of the London Money Market, then *ipso facto* the most essential things for us to do before we can secure a sound system of currency and a stable exchange are (1) to place before us a sound ideal—an ideal arrived at after due deliberation and dispassionate thinking, and (2) to try to averge to that ideal step by step (i) each step to be determined by the peculiar conditions of India at that particular moment and (ii) with no thought as to

the influence of those steps on the Money Markets of Timbuctoo.

Now to the ideal : When we study the history of currency in some important countries of the world, we find that most of them have been consciously or unconsciously approximating towards the system in which internal currency consists mainly of paper (such as notes, cheques, etc.) convertible in gold, and of such cheap metallic subsidiary coinage or surrogates as may be necessary for the day to day transactions of the people. Gold is kept in the reserves of banks or Government treasuries and is made obtainable as far as possible only for making payments abroad. It is not denied to the people legally, but the whole thing is so managed that people take as little of it as possible. Both gold and paper are made unlimited legal tender, while the subsidiary coinage is made tenderable only up to a limited amount.

That this was the ideal of the Indian Government and the Indian people at the time of the Fowler Committee is clearly recognisable in the past literature on the subject, both Government and popular. That this was not kept constantly in view, after that as the guiding star of India's Currency Policy, is also made perfectly clear by the fitful movements of Government ; and of this we find ample evidence in the historical survey. That this should be the ideal of our currency policy in future is my considered opinion, as well as of all those who have given serious thought to the problem.

Ever since the appointment of the Fowler Committee in 1898, the point of controversy has been

the method to be adopted during the period of transition from a silver to a full fledged gold standard. The Fowler Committee and the educated public opinion in India were, and are, in favour of reaching the ideal by adopting a gold currency in active circulation and then its voluntary substitution by paper (convertible in gold), when the people have been educated in the use of paper-money as England and some other countries of the world have done before us. But the Government of India, though they accepted the recommendations of the committee, and in the beginning seemed anxious to translate them into practice, after that so called set back of 1900, when they made an half-hearted effort to send sovereigns into active circulation and got them back, gave up Gold Standard, and adopted Gold Exchange Standard as the means to attain the end. There are people who believe that it was a mistake on their part to give up the introduction of gold into active circulation after making one half-hearted effort in that direction. Why they think that it was a mistake is very well pointed out by Sir James Begbie, in his minute of dissent to the Chamberlain Commission Report. He said :

“ Another argument that it is desirable to educate people in the use of more economical forms of currency than gold, that of course, is a desirable object, but the experience so far gained does not inspire the hope that the educative effect of the present methods will be successful in attaining it. The increased circulation of notes may be pointed to as an advance toward the use of more economical forms of currency ; but it is due not only to a desire

to economy in currency, but partly at least to increased facilities for the employment of notes. Against this favourable sign must be set the increased absorption of sovereigns. . . . This demand for gold coin, accompanied as it has been by increased demand for gold bullion, dominates the whole currency situation. *For a country that takes gold in great quantities an extensive token currency is most unsuitable. It has the usual effect of driving gold out of circulation. It has the still greater disadvantage that it keeps gold out of useful employment. People who value gold so highly as to store and hold it to the extent witnessed in India are not likely to invest or make other profitable use of it, so long as they have to take the risk of being repaid in token coins when they realise their investments.* The token currency not only prevents the holders of the gold from utilizing it to some advantage, but the country as a whole loses the benefit that should accrue to it from the possession of great wealth. While, therefore, the process of education in the use of economical forms of currency is proceeding, the probabilities are that people will nonetheless continue to amass their growing wealth in solid gold. In my opinion what is needed is not education in the use of economical currency so much as education in the use of stored up gold. The first step, however, is to convince the people that if they use their gold they will get it back when they want it, and that can not be done while there is extensive and expanding token currency. A currency in which gold was a more prominent feature and to which token coins were less freely added would be more practical as an educative force."

“The hoarding habit in India is no doubt a difficult problem. Its recent rapid development in increased demands for gold, and the possibility of its further expansion, make it a question of the highest importance. I do not, however, think that the opinion expressed in paragraph 75 of the Report that, “the hoarding habit is sanctioned by the experience of centuries in India and by religious and racial laws and customs,” sufficiently accounts for the accelerated pace it has latterly acquired. In my opinion that is to a large extent the outcome of the policy which has brought into existence the extensive token currency. Up to the closing of the mints in 1893 to the free coinage of silver the public had been accustomed for generations to full value coins for their currency requirements, and they are not now prepared to hold their profits and savings in the form of over-valued rupees. Hence, their preference for gold, both coin and bullion.

“For the reason that I have indicated, I am of opinion that the true line of advance for the currency policy, is to discourage an extension of the token currency by providing increased facilities for the distribution of gold when further increase in the currency becomes necessary. These greater facilities should I consider, include the issue of a gold coin from an Indian Mint of a value more suitable for general currency use than the sovereign and the half sovereign...”

Further those who believe in the above line of argument point their finger towards the huge additions to currency that have been made in the years

succeeding to the Report of the Fowler Committee, and say that had Government of India adopted the policy of sending gold coin in active circulation, then long ago very large quantities of gold coin would have permeated in the internal currency of the country, and people would have lost that sense of insecurity about getting gold back, which has been engendered by the introduction of the silver tokens, and that now gold could have easily found its way to the Treasuries of Exchange Banks at the time of an adverse balance of trade. How sadly true this line of thought! And yet now it only reminds me of those words of wisdom which I remember having read somewhere that, "the saddest words are *might have been*". And there would have been no need now, when for good or evil we have been working on the gold exchange standard system for the last twenty-five years, for me to take note of these might have beens, had there not been a very strong school of thinkers in India, who believe in this argument, and who would go back on the whole history of so many years to try the system anew and at once.

No doubt, there is much force in the argument of Sir James Begbie, that the use of token rupees helps to intensify the desire of Indian people for hoarding gold, and that if gold were freely available as a medium of circulation much of its glamour in the public eye would go. But there are two points which we should consider before we can subscribe to the idea of immediate adoption of Gold Standard with a gold currency. Is the large consumption of gold in India solely due to this cause, or is it also due to the innate desire in man and

woman for jewellery and ornaments? If in India it is due to the absence of gold in active circulation then how to account for the huge consumption of gold in European countries, where gold standard and gold currency are the rule and where people are more advanced and enlightened than the Indian people? To me it seems that Sir James has attached rather too much importance to the educative influence of a gold currency on the hoarding habit of the people of this land. Without denying the influence of an active gold circulation in this direction, I would attach far greater importance to such factors as general education, the development of co-operative credit and banking, and a general rise in the standard of living and thinking, and this due to a rapid progress in the arts and industry, the means of communication, and trade. The development of banking and investing habit have been a slow process even in the countries of the West, and are bound to be so in a conservative country like India, and so long as these two habits are not fairly highly developed hoarding of precious metals is bound to continue, whether there be gold in active circulation or not. And (2) can we at once, specially at this stage of currency development in India, pass from the Gold Exchange Standard to Gold Standard with gold in active circulation? My answer to this is a definite No. The reasons for this would appear as we proceed further.

To me it seems that the initial mistake was made by the Fowler Committee, when they permitted the continuance of the rupee as unlimited legal tender. With many other things the Committee recommended

(1) the opening of the Indian Mints to the free coinage of gold, (2) the fixing of the exchange value of the rupee at 1s. 4d. gold, and (3) the continuation of the token rupee as well as of gold as unlimited legal tender. Now had the Government of India persisted in carrying out all the above recommendations in full, then the policy of open mints for gold would have sent all fresh supplies of gold to the public ; and perhaps most of it, in the beginning at least, would have gone to replace rupees in hoards and notes in active circulation, and for years to come would not have formed a substantial part of the active circulation. And as the rupee was permitted by the Committee to remain full legal tender, and as the Government had accepted this recommendation, therefore perhaps at the time of an adverse balance, the public would have confronted the Government with large number of rupees to be exchanged into gold for export. How far Government could have discharged this onerous duty, without suffering a serious loss is not easy to judge ; but I for one think that they must have suffered considerably if an exchange crisis were to take place soon after the recommendations of the Committee, as it actually did take place in the years 1907-08.

The idea of some people, that just as in France we have what is known as the Limping Standard where both the token silver franc and the gold franc are unlimited legal tender, and the system has been working for so many years almost successfully, similarly in India also we could have the same system, is, though plausible, not practicable. And the reasons are not far to seek. In France the silver

token franc does not hold such a predominant position in the circulation of the country. The circulation of gold franc is much greater, and it acts as the actual money of account and the medium of circulation for a very large part of the total population. While in India the bulk of the people are poor, their standard of purchases are low and, for years to come, rupee is likely to continue to be the most convenient medium of circulation. Here a gold coin be it of the same weight and fineness as the sovereign or even of so much weight and fineness as would be equal to say Rs. 10, has not got much chance of forming an appreciable factor in active circulation. It may serve the convenience of the very few rich in cities like Calcutta, Bombay or Karachi, or it may serve as the store of value for the hoarding variety, but under the existing conditions of standards of income, expenditure, and living of the mass of the people, it can never be of any practical use as currency to the *Indian People*. The argument that we in India have been using the gold *mohur*, and the gold *fanam* in ages past, does not apply to the existing conditions. The days when these gold coins were used no longer exist. In the days of the gold *fanam* there were no quick and cheap means of communication, there was very little trade between the cities and the surrounding rural areas, and most of the bargains in the villages were transacted in kind and not in cash. In the days of the *fanam*, although there was money, and that money of gold, and yet the majority of the people lived under barter economy, and the few who could secure the gold coins invariably used them as a store of value.

It was only the very few rich people living in towns who did make use of the gold *mohur* or the gold *fanam* as medium of exchange. Now things are completely changed, and under the stress of modern economic forces are changing still faster. People even in the remote villages are using money in day to day transactions, and for people in the villages, so far rupee is by far the most convenient unit, both as a medium of circulation as well as a money of account.

That is why, I look upon the recommendations of the Fowler Committee as inconsistent. Perhaps if they had recommended the immediate declaration of the rupee as a subsidiary coin tenderable, say up to Rs. 250 or 500, then for all higher payments gold might have been attracted. It is true that the Fowler Committee themselves point out that at some future date the rupee will have to be relegated to the position of a subsidiary coin, tenderable only up to a limited amount, but that fails to make arrangement for the intervening time.

However the rebuff of 1899, gave an opportunity to the Home Government to refuse the Government of India further opportunities of popularising gold in active circulation. When in the year 1901, the Government of India again tried to send gold into circulation by opening a mint for the coinage of gold, the British Treasury would not allow it. After this the Government of India "drifted" into the Gold Exchange Standard, and the system has been working for the last twenty-five years. But the worst of it is that even now

we have not realised the true nature of this system, and have not been able to persuade ourselves that it is possible to reach the ideal currency system through it. It is true that as early as 1910 Sir James Meston realised the "half-way house" nature of the system, but this "half-way house," was changed into our ultimate aim, four years later* by the Currency Commission.

That it is possible to reach the ideal through the Gold Exchange Standard System, will be clear when we recall to mind the fact that we had almost reached it during the years of the war had not the Government with callous indifference wasted India's accumulated gold resources as they did after the Report of the Babbington Smith Committee by selling the Reverse Councils. And further had not the Government studiously and deliberately sacrificed India's legitimate share of world's gold to the interests of the London Money Market,† when during the war years from 1916-17 onwards, the balance of trade became very much favourable to India. Then was the supreme opportunity for the Government of India to permit the free inflow of gold into the country, to have it minted here, and then to declare the notes convertible in gold instead of in token

* Read the extract as quoted in the Introduction.

† They should have as pointed out by Sir Dadiba Mervanji Dalal in his Minute of Dissent to the Babbington Smith Committee Report, stopped the coinage of fresh rupees from silver and allowed free excess to gold when the Balance of Trade was in favour of India and when it went against her, they should have allowed free export of silver to meet the international indebtedness. That would have at once secured a large stock of gold for India as well as kept the price of silver down.

rupees, and to make the rupee itself a subsidiary coin, tenderable up to a limited amount. But as I have said above, the interests of the London Money Market came in their way ; and all sorts of devices were adopted to economise the use of gold for England, what did it matter that India suffered as she did.

Having lost this golden opportunity of changing from silver to gold in actual circulation, the Government of India, at the end of the Great War, found themselves in a hopelessness, out of which they have not been able to extricate themselves yet. We in India today are in a position where though the legal rate of exchange is 2s. gold to the rupee, the actual rate is somewhere in the neighbourhood of 1s. 4d. sterling. We have neither the Gold Exchange Standard as we had it before the war, nor any other standard for the matter of that, except the standard of Wait and See. And the circumstances in which we were placed by the action of Government were such that we could have no other standard or definite currency policy except the policy of marking time. How long shall we follow the policy of Wait and See is the problem before all who are interested in the Currency Policy of this country.

There are the Government of India more or less definitely inclined to go back to the Gold Exchange Standard and to adopt it as the permanent currency policy. Thus Sir Basil Blacket, K. C. B. while speaking before the Associated Chambers of Commerce, at Bombay on the 4th of December 1923 remarked : " The whole tenor of my remarks today has been to suggest

the unwisdom of attempting to speak too confidently about the future or to act in anticipation of events. ...The goal towards which we are all working is, of course, a gold standard. England is doing the same. A gold standard does not by any means necessarily mean a gold currency. Let me appeal to three authorities in support of this statement. My first is Plato who, in laying down laws for his ideal state, pronounced strongly in favour, not of a gold currency but of the gold exchange standard. For internal purposes his state was to issue currency notes, stamped on bits of leather, but for international payments it was to keep a reserve of gold. My second authority is Mr. Keynes who, in his book already quoted, expressed himself on this subject perhaps more freely than I should care to do. "Much nonsense", he says, "is talked about a gold standard's properly carrying a gold currency with it. If we mean by a gold currency a state of affairs in which gold is the important medium of exchange, no country in the world has such a thing (unless it be Egypt). Gold is an international but not a local currency. The currency problem of each country is to ensure that they shall run no risk of being unable to put their hands on international currency when they need it, and to waste as small a proportion of their resources on holdings of actual gold as is compatible with this. The general adoption of the practice of putting gold into circulation would at the present time involve such a demand for gold as would bring gold prices down to a level so far below the present world level as to be intolerable everywhere. Incidentally, one of the dangers of the near

future is that the breakdown of the machinery of Government in Europe may extend so far as to discredit all forms of paper currency and drive people back to metallic forms of currency. Were this to occur, the demand for gold as a medium of internal exchange might have disastrous consequences. England, I imagine, is not likely again to waste any proportion of her resources on an actual gold circulation." The question whether India will want to do so need not at present arise, because progress towards a gold currency would necessarily be made by way of the establishment of a gold standard, and on that first step we are all agreed, and it is for that we are working. But the gold standard of the future may perhaps be a little different from the system with which we were familiar in Europe before the war. This brings me to my third authority in favour of the gold exchange standard system. If the resolutions of the Currency Committee of the Genoa Conference are carefully studied, as they deserve to be, it almost seems as if Europe intended to work her way towards something very like the system which we have had established in India for many years past. There you will find reference to 'gold centres' in which, for convenience and economy, the world's reserves of international currency would be concentrated. If other countries maintained reserves of gold at all it would not be because, they required them for their own purposes, but because, being unable or unwilling themselves to take a leading part in the maintenance of an international gold standard, they were expected as a condition of membership of a world currency system either to

make a direct money contribution to the cost of central gold reserve or to suffer, for their own and the general advantage, the inconvenience and expense of having a portion of their resources locked up in unproductive form.

“ In such a system it seems that India might well find her appropriate place, for in matters of currency policy there can be no irreconcilable conflict of interests between nations. The advantage of the whole must be the advantage of every part. I cannot admit, for example, that the questions which we have been discussing today can be viewed either from an Indian or from an English standpoint. It is my business as Finance Member to put the interests of India first, and I unhesitatingly do so. But in this matter the idea that there is a conflict of interests is moonshine. There is plenty of room for difference of opinion but there cannot be any difference of motive.—Whether we are exporters or importers or merely in the Finance Department of the Government of India, we can afford to approach the subject from the same angle, with the same ends in view, and we can not afford to do anything else.”

On the other hand, there is the Indian public vociferously insisting on the immediate adoption of a gold standard with gold in active circulation :

Thus Professors P. A. Wadia and G. N. Joshi, of Wilson College, Bombay, in their joint-paper submitted to the Annual Conference of the members of the Indian Economic Association held at Bombay in January 1924, observe ; " A right or wrong policy in matters of currency and exchange vitally effects the entire economic life of a country ; and whilst public opinion is concentrated on the question whether the rate of exchange should be 1s. 4d. or 2s. the main issue is apt to be lost sight of. The primary need of India is the adoption of a sound monetary system ; this need can be easily met owing to the advantageous position of India in the international market. Our rulers instead of meeting this in a statesmanlike manner have experimented with our currency to the sacrifice of our interests, and this experiment is now to be continued in the same reckless manner as in the past and is to be defended in the name of sound economics. The only way out of this muddle is the adoption of a gold standard and gold currency." This gives us an idea of the general opinion expressed by Indian economists of Bombay on this subject.

Such are the views of the Government and the public. Now where is the truth ? To me it seems that the problem at present is twofold. Firstly, should we put before us the Gold Exchange Standard System as it was working between the years 1901 and 1914, as our permanent and ideal currency system ? Or shall we have as our ideal the system as originally conceived by Plato and Ricardo and towards which most of the important countries of the world have been approximating ? Secondly, say if

we adopt the ideal system recommended by Ricardo as our ultimate aim, then what system should we adopt for the time being before the conditions are suitable for the attainment of our goal ?

Now to the first : Although one Commission and a Committee have pronounced in favour of adopting the Gold Exchange Standard, as it has been working in India, (and not as it was conceived by Ricardo or as it has come to function in England) as our permanent currency policy, and although Mr. Keynes, the great financial authority of England for countries other than the British Isles, is never tired of singing its praises, yet, I for one, can not reconcile myself to a system at once expensive (expensive because instead of paper in internal circulation, it has silver token rupees on which India loses much in wear and tear) and crude (crude as it is exposed to danger at its two ends. It is liable to fail (i) if Government fail to give gold in exchange for rupees to meet external obligations of India, and (ii) if the Government fail to give rupees in exchange for gold). In view of these facts, we could never dream of having the Gold Exchange Standard system as our permanent currency system. Naturally then we could have no better ultimate aim than what we have termed as the ideal system of currency. How to reach it ? Should we, nay can we, change to it by the immediate introduction of gold in active circulation as the preliminary step, or should we again adopt the Gold Exchange Standard as it was working between the years 1901 and 1914, as our means ? Perhaps the majority of thinking Indians, after witnessing the callous waste of India's gold

resources during the war, have come definitely to this opinion that whatever the cost, India must at once adopt gold currency in active circulation to ensure that the full share of the world's supply of gold to which she can legitimately lay a claim may reach her in safety. Suppose the Government also decide to do so, then they shall have to adopt one of the two following methods :—(1) They may begin (a) by introducing a gold coin in India, and opening mints to its free coinage, (b) by declaring notes convertible in gold, only keeping notes of small denomination, say up to Rs. 10, convertible in the token rupee and that too at the option of the holder, and then declare the rupee a subsidiary coin, tenderable only up to a limit. (2) Or they can withdraw rupees from circulation, sell them for gold, and then allow the free mintage of gold in India and as in (1) make the paper currency convertible in gold. If they adopt the one, then the public will be put to much inconvenience and loss as the large mass of rupee circulation will have become useless except as bullion for securing gold, to meet large internal and external transactions. Further the country will suffer an immediate loss as the Government shall have to change that part of the cover of Paper Currency which is now held in silver into gold. All this will cause a substantial shrinkage of currency in India and prices will fall very much below what they are now. This will materially injure the agricultural classes. This, of course, will stimulate export of raw materials and thus by bringing about a favourable balance of trade, attract gold, and relieve the situation in the long run. But during

the time that adjustment will be taking place, this move will have ruined a large number of individuals, having a large number of rupees in their possession. It will have used up all the existing gold resources of Government in providing cover for the paper currency and if an adverse balance were to take place, and bring about an exchange crisis like that of the years 1907-08, and 1914, then it will cause a further loss to the people and the Government. If they adopt the second course, which they should on grounds of equity, then the results will be substantially the same as discussed above, with only this difference that instead of individuals bearing a substantial part of the loss, the whole of it will fall on the Government. But is it desirable; is it absolutely essential that we must suffer all this loss? I think not. It seems to be true that India can not, as Sir James Begbie, and others assert she cannot come to adopt Ricardo's ideal system without passing through active circulation of gold inside the country. But, it is not absolutely essential for us to introduce gold in active circulation immediately. For a long time to come, for the various reasons that I have discussed above, she cannot have an appreciable amount of gold—an amount part of which could be released at the time of an adverse balance to meet external transactions—in her internal circulation. We should, therefore, again adopt the Gold Exchange Standard System as we had it before the war, but not as a permanent system as is contemplated by the Indian Government, but as a preliminary step towards our ideal. When we have accumulated sufficient stock of gold then we should take the

first move towards passing from the Gold Exchange Standard to the Gold Standard with gold an active circulation in theory, but gold in Bank reserves in practice. And this first step should be the declaration of paper currency convertible in gold. Of course, to facilitate the use of small notes, they should be made convertible in gold or in rupees, just at the option of the holder. To those who might say why should we not declare the paper currency convertible in gold just now, I may be permitted to point out that we cannot do it as our present stock of gold is not sufficient for the purpose. The total quantity of gold in the Paper Currency Reserve of Indian Government on the 7th of August 1923 was as follows :—

	Rs.
In India : Gold coin and bullion,	22,31,67,513
In England	... Nil.

Total Gold Rs. 22,31,67,513.

And the total quantity of notes in circulation on the same date was Rs. 176,23,17,819.

If the metallic reserve to cover the total note circulation should be 50%, then the quantity of gold in the reserve should come up to about 88 crores worth of gold. This means that our present gold resources fall short of the necessary minimum by 66 crores worth of gold. Probably greater part of this deficit could be met by selling the stock of silver rupees which was 82 crores on the 7th of August 1924 held in the paper currency reserve. At the

present price of silver (Rs. 81-4 as. per 100 tolas of fine silver) it is likely to fetch 59 crores worth of gold. Even then we shall have a deficit of seven crores worth of gold. As a matter of policy, I should not recommend the selling of rupees in the Paper Currency Reserve, because even if the rupee were reduced to the position of a subsidiary coin, people of India will surely continue to demand rupees in exchange for notes, as well as for other purposes. We should then utilise these rupees and substitute gold by and by. Any sudden attempt to sell the huge stock of rupees is sure to depress the price of silver in the market and thus cause an unnecessary loss to the Indian Exchequer. Then again the 40 crores worth of gold securities in the Gold Standard Reserve, should not be utilised for this purpose, so long as gold has not permeated sufficiently in the internal circulation, and the rupee formally declared a subsidiary coin with a limited tender. So long as the rupee continues to form the chief part of the Indian currency, and unlimited legal tender it will be dangerous to spend any of this gold as at any moment it may be needed to support an adverse balance of trade and the resulting demand for reverse councils. Therefore the real shortage of gold resources at present to provide the minimum metallic cover for the notes circulation is 66 crores, and so long as it is not provided we cannot take the step of making our notes convertible in gold.

We should therefore for the time being resume the Gold Exchange Standard System, as we had it in the pre-war period and be ever watchful for the accumulation of gold in India in the Paper Currency

Reserve till we have brought it to the level of 50% of Gross Circulation. To secure this end as soon as possible, we should renew our efforts towards the popularisation of notes. Whenever there is a demand for Council Bills, they should as far as possible be cashed in notes in India, and not in rupees. And in deference to the wishes of the people of this country, as well as to save the chances of its being invested in foreign securities or employed for other productive but easily unrealisable purposes, all this gold received for such Council Bills should in future be shipped to India to be kept here in the Paper Currency Reserve. The arguments generally advanced in favour of keeping the Gold Standard Reserve in England, do not apply at all to this case, as the object of this Reserve is to secure the convertibility of note circulation. However, the gold received for that part of the sale of Council Drafts, which is done by the Secretary of State for India, to meet the Home Charges, should not be sent to India. And as I have mentioned above for the time being there should be no fresh coinage of rupees, and if there is a demand for them, it should be met from the stock in the Paper Currency Reserve. In these two ways, within a reasonable time we may be able to declare our note circulation convertible in gold. And perhaps by that time some appreciable improvement will have taken place in the standard of incomes and purchases of the people, and thus make the use of gold more practicable than it could be now.

When we have done this, we should begin to send gold in active circulation, and discourage the coinage of rupees as far as possible, and when enough

gold has permeated in the internal circulation, then the final step of declaring the rupee as subsidiary coin should be taken.

However, so long as the rupee is allowed to continue as unlimited legal tender, it will be necessary to have a legal rate of exchange between the rupee and the gold for facilitating foreign transactions : The experience after the Babbington Smith Committee has shown that it is next to impossible to maintain the impossibly high rate of 2s. gold to the rupee. In his memorandum submitted to the Babbington Smith Committee, (which however, the Committee did not consider desirable to include in the evidence submitted before them, and which Mr. Madon has very kindly supplied to me) Mr. B. F. Madon of Bombay had pointed out that all, past experience showed that wars generally led to the rise of value of silver, and that after the war silver was not likely to maintain its high price in terms of gold ; and this statement of his is supported by very interesting data. But the commission paid no heed to it. They on the Report of Professors H. C. Carpenter, F. R. S. and C. Gilbert Cullis, D. Sc. quite unreasonably* took it for granted that the rise in the price of silver

* Professors Carpenter and Cullis after going through a very exhaustive study of the conditions of silver production during the last fifty years came to the following conclusions : -

“ During the years 1906-1912 the world's production of silver showed a marked increase, which was merely an accumulated continuation of an increase going back at least to 1869. This increase was abruptly checked in 1913. In 1914 the production suddenly fell by nearly 60,000,000 ounces and it has remained depressed ever since.

“ The falling off in the output of the last five years is to be attributed entirely to the Mexican Revolution and the European War.

was going to be prolonged with the result that the price of silver did fall, and the Government of India failed to maintain their legal rate. However, what has been done, cannot be undone and we have now

“It is not due to any general exhaustion of ore supplies, such slight exhaustion as has occurred in certain localities having been more than made good by the development of new supplies in others. If these political upheavals had not intervened the annual output would, it is believed, have been at least as great as any yet realised. Further, it is anticipated that when favourable industrial conditions are established in Mexico and other disturbed silver-mining centres, production will return to the 1912 level, and will probably continue to expand.

“Important silver fields have been discovered intermittently since early times ; several have been made known during the present century. The discovery of others in the future, especially since great advances have been made of late years in the science and art of prospecting may be confidently anticipated.

“Within recent years silver has been obtained in growing measure as a by-product from mines worked primarily for gold, copper, lead, and zinc. Ores of these four metals are estimated to yield at present about 80 per cent. of the world's silver, and of the last three about 70 per cent. Prices now ruling for all of them are good, and may remain so for a considerable time ; further, the future demand for these metals is likely to be not only maintained, but increased. The resulting augmented production of them will necessarily be accompanied by an augmented production of the silver associated with them.....

“The total output of silver between the end of 1912 and the beginning of 1919 has been fully 275,000,000 ounces less than it would have been if production had been maintained at the 1912 level. This shortage, in conjunction with other factors, has created an urgent demand for silver, which has caused the price to rise beyond all previous records. The price will probably remain high, possibly between 4s. and 5s. 6d. per standard ounce, for a prolonged period.....

“It must, however, be borne in mind that any extension in the mining of precious metal ores will take time, and also that the mining of base metal ores is for the moment below normal and will continue to be, so long as the surplus supplies of copper, lead, and zinc produced during the war remain unabsorbed. It is probable therefore that silver production, will remain for a time at a low level ; but in the near future, when increased precious metal

to adopt a new rate. What it should be? Whether 1s. 4d. or 1s. 6d? We had the 1s. 4d. rate before the war, and some very big authorities, * including most of the Indian writers on the subject, have been recommending it. But when we study the table of quotations for demand drafts in Calcutta, we feel that perhaps the rate of 1s. 6d. gold would be better. First we notice that the downward movement in exchange that set in after February 1920, when it stood at 2s. 9d. brought the exchange down to 1s. 3d. in

mining has reached the stage of production, and when the temporary check to base metal mining has been removed, a steady increase in the output of silver will set in.

"It is not possible to predict the extent of that increase, but so long as the Mexican output remains at its present reduced level, the world's production of silver is not likely to rise beyond the maximum attained in 1912. On the other hand, if normal conditions should be restored in Mexico, a production considerably in advance of that maximum would eventually, and probably shortly, be realised.

"The protracted fall in the price of silver, which set in 1871 and reached a low record in 1909 and 1915 was due to excess production, several important silver fields having been developed, and the large-scale recovery of silver from base metal ores having come into operation during that period. Reduced production, increased consumption, and accumulated arrears consequent upon the War will probably keep the supplies of silver short and the price of silver high for many years; but eventually history is likely to repeat itself, and, with an expanded output from precious metal mines, and plentiful supplies from base metal mines, production may again get ahead of consumption, in which case price reduction will ensue."

* Thus a great authority on Indian Currency and Finance Lord Meston, while speaking at the City of London College on the 7th April '24 is reported to have remarked "What actually happened, after the Government of India had grasped at the 2s. rupee, was a steady decline in the exchange rate until in August 1921 it had gone down to 1s. 3d. and in August 1923, it rose to 1s. 4d. and a fraction over, and it is now hovering and has been for some time between 1s. 4d. and 1s. 5d.....I do concur (with Mr. Dalal) that we should reinstate 1s. 4d. rate at the earliest possible moment."

March 1922. After this we again find a revival, which has been continuously maintained up to the present day, and the exchange now stands at about 1s. 5d. If side by side with this recovery in the rate of exchange, we study the conditions of politics, production, trade, and finance in the erstwhile belligerent countries of the west, we notice a strange but parallel movement that of gradual re-settlement to normal conditions in those parts, and of the recovery of the rate of exchange in India. The presence of this paralld movement is undeniable. What are its implications? May it not mean that as new conditions created by the war, will have assumed a more or less permanent character their result on India will be a new adjustment of her exports and imports, as well as of her price level within the country. And perhaps to suit all these changed factors, a rate, of 1s. 6d. would be more natural, than the pre-war rate of 1s. 4d. This is merely a guess-work on my part, and I cannot afford to be dogmatic about it, but the tendency of things seems to be in this direction. I consider it therefore desirable to put up for a little while more, with the policy of wait and see that is being followed by the Indian Government, and if we find that the exchange rises further up as settlement and reconstruction proceed in Europe then to fix it at 1s. 6d. with effect from some convenient future date; and if the exchange were again to adopt a downward course then to fix it at 1s. 4d. gold, the pre-war rate.

But whatever the ratio fixed, when it is done, Government should definitely undertake to sell council drafts, as well as the reverse councils, with-

out limit whenever there is a demand for them, at a fixed rate. There should be no uncertainty and hesitation about it.

Allied to the above is the question, whether the gold in the Gold Standard Reserve should be kept in India or in England? Looking at this question from a purely economic, and leaving sentiment as well as other considerations, for the time being apart, as well as taking the practice of other independent nations like China, Japan, Germany, France or Belgium into consideration, I must say that it is desirable to keep a substantial part of this Reserve in Foreign Securities. The funds in this Reserve are needed to support the foreign exchanges in the event of an adverse balance, and as we do not have an adverse balance every year, but very seldom, say once in 12 years, it would be wasteful to keep the whole of it in liquid gold. But this does not mean that the management of this Reserve should be in the hands of the Secretary of State, and that the whole of it should be invested in the securities of the British Government and other public and private bodies of the British Isles. The entire management of the Reserve should be in the hands of the Government of India; they should select the securities, and the liquid gold should be kept in the country itself. There are people in India who realise the wisdom and the desirability of keeping their gold reserves in foreign securities, but when they see the interests of the country sacrificed, and that in the name of sound currency policy, they cry down the policy itself. And one cannot reasonably blame them.

However before any of these things is done it is absolutely essential that Government should definitely adopt a well-thought-out policy, be it as we have suggested above, or on some different lines, and then pursue it with determination. Public in India should know the ultimate aim, and the various steps that are proposed to be taken in the intervening period. This will create confidence in the public mind, and then there will be greater chance of the success of the scheme. One great curse of the Indian Currency System, so far, has been its dependence upon the will of the Executive, specially the Secretary of State and his financial advisers of the London Money Market and unless this is eliminated Indian interests are not likely to receive their due consideration. The safety of the money market in London was a laudable object in the days of the Great War, when the safety of the Empire was at stake ; and we in India could look upon that practice with a feeling of suppressed indignation when India was being governed as a mere dependency of the British Isles, but certainly now when the declared policy of His Majesty's Government in India is progressive realisation of Swaraj, the subjection of Indian interests, and the sacrifice of Indian Sentiment, in the matter of currency policy, to the interests of London Money Market is at least out of tune, if not worse.

APPENDIX I

TABLE OF EXCHANGE RATES

1917 to 1924

Quotation for demand drafts in Calcutta.

Date.	1917	1918	1919	1920	1921	1922	1923	1924
	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.
1st January ...	1 4½	1 5	1 6	2 3½	1 5½	1 4	1 4 ⁵ / ₃₂	1 5 ³ / ₁₆
15th „ ...	1 4½	1 5	1 6	2 4	1 5½	1 3 ⁷ / ₈	1 4 ³ / ₁₆	1 5 ⁵ / ₃₂
1st February ...	1 4½	1 5	1 6	2 8½	1 4½	1 3 ⁵ / ₈	1 4 ⁹ / ₁₆	1 5 ³ / ₁₆
15th „ ...	1 4½	1 5	1 6	2 7½	1 4½	1 3 ⁵ / ₈	1 4 ¹¹ / ₃₂	1 5
1st March ...	1 4½	1 5	1 6	2 7	1 3½	1 3 ¹ / ₈	1 4 ³ / ₁₆	1 4 ²³ / ₃₂
15th „ ...	1 4½	1 5	1 6	2 3½	1 3½	1 3 ¹ / ₈	1 4	1 4 ²⁷ / ₃₂
1st April ...	1 4½	1 5	1 6	2 4	1 3½	1 3 ¹ / ₈	1 4 ¹ / ₈	1 4 ¹¹ / ₁₆
15th „ ...	1 4½	1 6	1 6	2 3½	1 3½	1 3 ¹ / ₄	1 4 ⁵ / ₃₂	1 4 ²⁵ / ₃₂
1st May ...	1 4½	1 6	1 6	2 3½	1 3½	1 3 ¹ / ₄	1 4 ³ / ₁₆	1 4 ²³ / ₃₂
15th „ ...	1 4½	1 6	1 8	2 0½	1 3½	1 3 ³ / ₄	1 4 ³ / ₃₂	1 4 ²⁷ / ₃₂
1st June ...	1 4½	1 6	1 8	2 1½	1 3½	1 4 ¹ / ₁₆	1 4 ¹ / ₁₆	1 4 ²⁷ / ₃₂
15th „ ...	1 4½	1 6	1 8	1 10	3½	1 3 ¹⁷ / ₃₂	1 4 ³ / ₃₂	1 4 ³¹ / ₃₂

Table Continued.

Date,	1917	1918	1919	1920	1921	1922	1923	1924
	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.
1st July ..	1 4 $\frac{1}{2}$	1 6	1 8	1 8 $\frac{1}{2}$	1 3 $\frac{1}{2}$	1 3 $\frac{5}{8}$	1 4 $\frac{1}{8}$	1 5
15th ,, ...	1 4 $\frac{1}{2}$	1 6	1 8	1 9 $\frac{1}{2}$	1 3 $\frac{1}{2}$	1 3 $\frac{3}{32}$	1 4 $\frac{1}{8}$	1 5 $\frac{3}{32}$
1st August ...	1 4 $\frac{1}{2}$	1 6	1 8	1 10 $\frac{1}{2}$	1 3 $\frac{1}{2}$	1 3 $\frac{27}{32}$	1 4 $\frac{1}{16}$	1 5 $\frac{15}{32}$
15th ,, ...	1 4 $\frac{1}{2}$	1 6	1 10	1 10 $\frac{1}{2}$	1 3 $\frac{1}{2}$	1 3 $\frac{5}{8}$	1 4 $\frac{1}{16}$	1 5 $\frac{1}{32}$
1st September,	1 5	1 6	1 10	1 10 $\frac{1}{2}$	1 4 $\frac{1}{2}$	1 3 $\frac{17}{32}$	1 4 $\frac{1}{32}$	
15th ,, ...	1 5	1 6	1 10	1 10 $\frac{1}{2}$	1 4 $\frac{1}{2}$	1 6 $\frac{9}{16}$	1 4 $\frac{5}{32}$	
1st October ...	1 5	1 6	2 0 $\frac{1}{2}$	1 9 $\frac{1}{2}$	1 5 $\frac{1}{2}$	1 3 $\frac{9}{16}$	1 4 $\frac{9}{32}$	
15th ,, ...	1 5	1 6	2 0 $\frac{1}{2}$	1 7 $\frac{1}{2}$	1 5 $\frac{1}{2}$	1 3 $\frac{5}{8}$	1 4 $\frac{3}{8}$	
1st November,	1 5	1 6	2 0 $\frac{1}{2}$	1 7 $\frac{1}{2}$	1 4 $\frac{1}{2}$	1 3 $\frac{11}{32}$	1 4 $\frac{25}{32}$	
15th ,, ...	1 5	1 6	2 0 $\frac{1}{2}$	1 7 $\frac{1}{2}$	1 4 $\frac{1}{2}$	1 3 $\frac{25}{32}$	1 4 $\frac{27}{32}$	
1st December...	1 5	1 6	2 3 $\frac{1}{2}$	1 6 $\frac{1}{2}$	1 4	1 3 $\frac{29}{32}$	1 5 $\frac{5}{32}$	
15th ,, ...	1 5	1 6	2 4	1 5 $\frac{1}{2}$	1 3 $\frac{1}{2}$	1 4	1 5	