

The Ráyat
and the
Statutory
Commission

To
THE RÁYAT

All these put their trust in their hands ;
And each becometh wise in his own work.
Without these shall not a city be inhabited,
And men shall not sojourn nor walk up and down therein.
They shall not be sought for in the council of the people,
And in the assembly they shall not mount on high ;
They shall not sit on the seat of the judge,
And they shall not understand the covenant of judgement:
Neither shall they declare instruction and judgement ;
And where parables are they shall not be found.
But they will maintain the fabric of the world ;
And in the handywork of their craft is their prayer.

Book of Ecclesiastics.

Introduction.

WHEN Ruskin said "There is no wealth but Life" he uttered the greatest of economic truths. For money is of value only if it can be turned into food, or what Adam Smith calls the necessaries and conveniences of life; and food is of value only as it is turned into flesh and blood, or Life.

Life, or active labour, being the real wealth of a nation is, therefore, the real base of credit. Money, whether gold or silver or paper, is only the instrument for setting men to work, or for exchanging the products of men's work.

Life being the productive power, as well as the base of credit, it follows that the only sound and scientific banking system is one which will supply as much money as may be required to keep every healthy man fully employed on useful work such as the raising of food, the construction of wells and canals, the building of houses, the spinning and weaving of cloth, the making of roads, etc. Money ought not to be issued or lent in excess of such requirements, plus what is required for the genuine exchange and distribution of goods; because if it is so issued or lent in excess it

causes inflation of the currency, and raises prices against the poor, as well as the rich.

One serious defect in western banking is that, it does not consider sufficiently the purpose to which money lent is applied. The question it considers is, will the money return safely with a profit to the bank? Whether it be used for the production of food, or for providing a more abundant life for the people, or for war and the destruction of life, or for speculation or greyhound racing, is immaterial to western banking, provided the money returns with a profit.

If India is to have a sound and scientific banking system it must be one which will employ all the labour of the country productively, and none of it wastefully; and such a system cannot be based on gold, for there is not enough gold for the purpose. It must be broad based on the organised labour of the people; then every healthy man can be turned on to constructive and productive work, and the country will reach its maximum of production and Life.

Money lent to the Indian producer should be issued on easy terms; because, if he has to pay fifty per cent. instead of five, for the money he borrows, he has no inducement to do his best, as the profit of his labour will pass to another; and the production and the Life of the country will suffer.

The Reserve Bank Act has gone, but no one need shed a salt tear over it. The Assembly did well to

reject it, not so much for what it contained as for what it omitted : it omitted India. The banking system which it proposed to establish, being based on a limited supply of gold, was of no use to a country like India which requires a practically unlimited supply of money to employ fully its practically unlimited supply of labour.

Agriculture is, and always will be, the chief industry of India, but the rejected bill made practically no provision for financing the great industry of the country or for increasing the food supply of the people. It was a traders' bill, not a producers'. The mercantile community, which is already provided with banking facilities, was to be given still greater facilities, while the great producing masses of the people, who have no banking facilities at all, were to be left without them. The Reserve Bank, with its 235 crores of rupees, was to be reserved for the trader, while the rāyat was to be reserved for the *Mahajan* or money-lender. Why this lop-sided bill should have been pushed to the front before Lord Linlithgow's Royal Agricultural Commission had made its report and told us what agriculture requires in the way of finance, it is difficult to understand.

The bank for which India has waited so long and so wearily is an All India Bank, one which will finance all India, and not leave out the one man by whose labour all others subsist ; for upon the welfare of the

rāyat depends the welfare of India. When the rāyat prospers all India will prosper ; and it is because the rāyat is poor that India is poor. Will the new Finance Minister be able to grasp, and have the wisdom to act on, this fundamental truth, which is the A.B.C. of Indian finance ?

The case for a central gold reserve has gone. Mr. McKenna, Chairman of the Midland Bank, and ex-Chancellor of the British Exchequer, gave it away in his annual speech a short time ago, when he said that, "*even in a gold standard country, gold need no longer be the controlling factor in the supply of money,*" and "*central banks possess the power to regulate the supply of money irrespective of gold movements.*"

After fooling themselves and the world since 1844 with the belief that gold was the one indispensable base of credit, the banks now turn round and tell us they are quite able to regulate the supply of money without it. Europe's gold having, for the most part, crossed the Atlantic, the bankers now make a virtue of necessity, saying they require it no longer.

Having lost their gold, the bankers now tell us that the real function of a bank—its primary task—is to control the general price level, by regulating the supply of credit or money. A more fantastic claim it would be hard to imagine. There is no such thing as a general price level. Prices are individual not general ; and

the banks can no more control the price of wheat or rice or coal or anything else than they can fulfil their promise to repay their customers' deposits in gold, on demand. According to the *Daily Telegraph*, Mr. Mellon, Secretary of the American Treasury, "quite recently has agreed that the Federal Reserve System cannot control prices, for credit is only one of the many factors in the equation." We also read in the *Times* of 6th March, that—

"Unemployment in the United States engaged the Senate to-day when Senator Wagner, of New York, introduced resolutions calling for a Federal investigation of the situation which is reflected, as he said, in the growing bread lines, in the larger number of men and women seeking work (about four millions) in the constantly decreasing return for the worker, in a lower standard of living for a large number of the people, and in the huge economic loss."

When a British Chancellor of the Exchequer tells us that gold need no longer be the controlling factor in the supply of money, and when the Secretary of the American Treasury tells us that the Federal Reserve banking system, with all its gold, cannot control prices; and when the same system, which owns half the monetary gold of the world, cannot control trade or prevent unemployment, it is difficult to see what good India is likely to get from a central gold reserve, or a lop-sided Reserve Bank such as that proposed.

The defunct Reserve Bank Act has no case left, and should be left lying where it is.

• The rejection of the projected lop-sided bank has cleared the way for something better ; and that is, a banking system which will finance India, and not only the small trading minority which the defunct bill was designed to finance.

The men for whom a banking system is urgently wanted are the eighty per cent. who live by agriculture, and by whom all others subsist. The Government Co-operative Registrars know better than any one else what the people require in the way of finance, and they should now meet and formulate definite proposals for an All-India Co-operative Banking Corporation, which will link up the Provincial Co-operative Banks into one concern which will finance India, apart from the mercantile community. The latter will be financed as now by the Imperial Bank of India and other sound Joint Stock Banks. But in view of the experience which India has had of banking failures, the formation of additional joint stock banks ought not to be encouraged.

When the All-India Co-operative Banking Corporation has been formed, it and the Imperial Bank might be linked together in a more or less nominal way by each taking a moderate holding of shares in the other, and each having a seat on the Directorate of the other. And a separate Joint Board might form an All-India

Banking Board with access to the Government Reserves. The Government of India would also be represented on the All-India Board, the Provincial Governments being represented on the Provincial Co-operative Banks' Boards.

Thus linked on to the All-India Co-operative Banking Corporation, the Imperial Bank of India would, in effect, be an All-India Bank whose London Office, in consultation with the High Commissioner, could attend to the sale of Council Bills and all other financial business of the Government of India.

It is, however, not much use tinkering with the roof of the Temple unless the foundations are well and truly laid, which they are not. Seven hundred thousand good foundations are wanted for India's 700,000 villages, but only 70,000 have so far been laid, and some of them not too well. Will Government now press on with the laying of the remaining 630,000, and see that they are well and truly laid by a sufficient number of competent builders ; for India dare wait no longer ?

There is now under the consideration of Government a great programme of road development to meet the growing motor traffic, the effect of which will be to bring every Indian village into contact with the outside world. In the speech which I have quoted, Mr. McKenna says that :—

“ Although gold is still the nominal price of most currencies, the real determinant of movement in the

general world level of prices is the purchasing power of the dollar. The conclusion is, therefore, forced upon us that in a very real sense the world is on a dollar standard."

If Mr. McKenna's diagnosis of the situation is correct, the consequences may be very serious indeed for the eighty millions of people who have to buy food. For, as the villages are brought by the motor into touch with the outside world and world prices, the village prices of wheat and rice and food stuffs generally will tend to rise to the world level; and if the world price should be the dollar price, the outlook for the Indian who has to buy food is anything but bright; for the Indian workman drawing twenty-five rupees per month may have to pay for his wheat and rice the same price as the American workman drawing five hundred rupees per month. The outlook for the *blades* *log* is equally gloomy.

But to be forewarned is to be forearmed, and the danger mentioned may be averted if agricultural development is kept well ahead of road and motor development so that the food supply of the country may reach its maximum, and thus prevent prices rising unduly. The maximum of food production is all the more necessary because the population increases, but the land does not.

India claims Dominion status, and will doubtless get it. But it is well to bear in mind that Dominion

status for the entity called India does not mean Dominion status for the individuals who comprise that entity. For example, the Canadian farmer and the Western Australian farmer are given free grants of 160 acres, or a quarter square mile, of virgin soil on which to settle and make comfortable homes and comfortable livings. The Indian farmer has only a five acre patch of impoverished soil, on which to rear his family. Assuming that the recommendations, whatever these may be, of the Royal Agricultural Commission are given effect to in full, and that, as a result, the yield of the five acre patch is doubled, the Indian farmer will still be only one sixteenth as well off as the colonial farmer—or one anna compared with one rupee. I wonder what the Canadian farmer would say if he were asked to make a living for himself and his family, and raise food for the towns and cities besides, from a five acre patch of impoverished land. Dominion status on paper and Dominion status in life are totally different things; and it is the life that counts. India wants the kernel, not the husk: the substance, not the shadow. Food is more fattening than status.

A weighty volume entitled *Britain's Industrial Future* has just been issued under the auspices of the Liberal Party. The executive Committee responsible for the volume includes the names of Sir John Simon and other distinguished members of the Liberal faith. The closing words of the introductory chapter are these:

“ We believe with a passionate faith that the end of all political and economic action is not the perfecting or the perpetuation of this or that piece of mechanism or organisation, but that individual men and women may have life, and that they may have it more abundantly.”

Well said ; and I have no doubt that Sir John Simon and his colleagues will do their best to transmute this noble sentiment into action when framing the recommendations of the Statutory Commission.

All life, whether agricultural, manufacturing, or official, touchable or untouchable, is sustained by the produce of the field. Therefore, India's impoverished fields must be compelled to yield their maximum of food, if her great and growing population is to keep ahead of want, and of economic and political trouble. And whatever is required for this purpose must be done, and done soon.

D. M. H.