

SERVANTS OF INDIA SOCIETY'S LIBRARY
POONA 411 004

CN

AcN 11811

Date of release for loan

This book should be returned on or before the
last date stamped below.

*An overdue charge of 5 paise will be levied for
each day the book is kept beyond this date.*

21 APR 1979

19 JUL 1980

26 JUL 1980

-5 JUN 1982

15 SEP 1984

19 JAN 1985

21 FEB 1985

21 FEB 1985

16 MAR 1994

A.R.P.]

Delhi University Publications No. 7.

INDIAN CURRENCY PROBLEMS IN THE LAST DECADE (1926-1936)

Sir Kikabhai Premchand Readership Lectures
Delivered in February, 1937, at Delhi University

Dhananjayrao Gadgil Library



GIPE-PUNE-011811

BY

J. C. SINHA

Professor of Economics, Presidency College, Calcutta.



UNIVERSITY OF DELHI

1938.

X61.2.N3

G8

PRINTED AT

THE MADRAS LAW JOURNAL PRESS, MYLAPORE, MADRAS.

11811

PREFACE.

The following course of lectures was delivered at the University of Delhi in February this year. In view of the rapid changes in monetary theory and practice in these days, observations on currency soon become out of date. I therefore deeply regret the delay in the publication of these lectures. To avoid further delay, they are published, substantially in the form in which they were actually delivered.

At the time of lectures, numerous charts and tables were projected on the screen with an epidiascope. This explains why the reading matter in some of the lectures which were mainly statistical, had to be cut down, to enable fuller oral treatment of the charts and tables. All those tables and fifteen out of the forty charts have been retained here. The remaining twenty-five charts had to be omitted, much to my regret, in order to ensure the printing of the lectures with the limited funds available for the purpose.

In preparing these lectures, I have been greatly aided by my brother, Dr. H. Sinha, Lecturer in Economics and Statistics, Calcutta University. My debt to him is more than I can suitably acknowledge. Most of the tables were compiled by his pupils, Mr. Deva Raj, M.A., at present Lecturer in Economics, Christ Church College, Cawnpore and Mr. Sudhindranath Sen, M.A., who was also a student of mine at the Presidency College. I have a heavy debt to these two gentlemen, who laid me under further obligation by preparing the charts.

My thanks are also due to my colleague, Prof. P. C. Mahalanobis, and to the staff of the Statistical Laboratory, Presidency College, for the facilities offered in the preparation of the slides for the lectures and for giving me free access to all the journals and other publications in the library attached to the Laboratory.

PRESIDENCY COLLEGE, CALCUTTA. }
| The 15th November, 1937. }

J. C. SINHA.

CONTENTS.

	PAGE.
LECTURE I.	.. 1
Indian Currency Problems up to March, 1926.	
Synopsis of the course of lectures. The present rooted in the past. The problem of the rupee. Instability. <i>Batta</i> . Travail of bimetallism. High interest rates. Seasonal stringency. Internal remittance. Transfer problem. Objective of currency policy. Currency control and administration.	
LECTURE II.	.. 14
Periods of Adjustment and of Comparative Stability: Internal Evidence.	
What does 'stable period' imply? External equilibrium. Internal equilibrium. Wholesale price level. The level of costs. Statistics of wages. Disparity between wholesale price level and cost of living. Movement of prices <i>inter se</i> . Stability of profit.	
LECTURE III.	.. 29
Periods of Adjustment and of Comparative Stability: External Evidence.	
Gold movement. Parity in interest rates at home and abroad. Changes in terms of trade. Balance of payments. Gross and net barter terms.	
LECTURE IV.	.. 43
Periods of Adjustment and of Comparative Stability: External Factors.	
Improvement in political relation. Post-war reconstruction. Was it jerry-building? Adjustment and stabilisation crises. Gap in balance of payments. Other causes of instability. Price of silver. Rise and fall of prices. Cost and price relationship in the United Kingdom.	
LECTURE V.	.. 54
Periods of Adjustment and of Comparative Stability: Internal Measures.	
Balancing of the Budget of the Government of India. Export surplus. Difficulties and uncertainties. Restriction of currency. Regulation of credit. Disparity between spot and forward exchange rates. Open market operations. Indirect deflationary measures. Fixation of the standard. Branches of the Imperial Bank. Transfer of funds. Emergency currency. Proportional reserve in place of fixed fiduciary system. Sterling purchase	

PAGE.

in India. New upcountry currency chests. Sterling resources in the Paper Currency Reserve. Was such severe deflation necessary? Overvaluation and undervaluation. Purchasing power parity theory and its underlying assumptions. Wholesale price parity. Consumption standard parity. The years 1927-29, a period of equilibrium. The Hilton Young ratio.

LECTURE VI.

.. 72

Period of Strain and Crisis.

Signs of depression in agricultural and manufacturing countries. Economic structure of a country. External and internal factors. Deeper causes of maladjustment. Strain from the beginning of 1929. Disparity in prices. Rise in interest rate. Internal trade movement. Fall in the exchange rate. Was devaluation desirable? Economic disturbances abroad. Was there undue contraction of currency? Were the signs of depression disguised? Monetary and financial measures adopted by Government.

LECTURE VII.

.. 93

Course and Phases of the Depression.

First phase of the depression. Its second phase. Deepening of the crisis. The third phase. How was India affected? Overdue loans of agricultural societies. Net ton-miles in railway transport. Production of cotton goods and of coal. Calcutta wholesale prices and Bombay cost of living. Active circulation of notes. Clearing figures and stock exchange prices.

LECTURE VIII.

.. 106

Currency Events During the Depression.

Silver sales and their effect. Exchange crisis during first half of 1931-32. Suspension of the gold standard in England. Measures adopted by Indian Government. The various alternatives. Short period and long period views on sterling exchange standard. Bounty on imports from England. Was gold export due to link with sterling? An abnormal feature in Indian Economics. Two classes of gold sales within the country. Gold export and its causes. Adjustment of balance of payments. Real reason for gold export. Measures suggested. The difficulties in the way. Incidence of export duty. Future value of gold.

LECTURE IX.

.. 123

Recovery and After.

Production of coal and cotton piecegoods. Movement of wholesale prices and of cost of living. Financial statistics. Trade figures. Extent of recovery. Measures for recovery. Monetary or non-monetary methods? Protective tariff. Its incidence. Any benefit to agriculture? Agrarian protection. Repercussions of tariff. Implications of demand for a low rupee. Is the rupee overvalued? Sir George Schuster's views. Are they valid?

Lag between costs and prices. Real drawbacks of devaluation. Two meanings of elasticity of demand. Special feature of manufactured goods. Anti-dumping duties. Secret of Japan's success. Adjustment of internal cost to internal price level. Experience of Australia. When should wages be reduced? Is reduction feasible everywhere? Difficulties in the case of India. Reduction in interest rate. Fixing a maximum rate. Cheap money at headquarters. Public works. Items to be taken up. The pace of expenditure. Other difficulties. *Non possumus* attitude of Government.

LECTURE X.

.. 150

Concluding Remarks.

Objectives of central banking. How far can unemployment be prevented? Stability in real income. Stability of output. Difficulties in an open system. Ability to produce. Exchange stability *versus* internal price stability. What can the Reserve Bank really do? Special difficulties of India. Limited number of exports. Rigidity of economic structure. What price level to stabilise? Is there a common consumption standard? Difficulties of stabilisation. Exchange stability, the only possible objective. Control of currency or of credit? Position of the rupee and of notes and bank deposits. What can credit control achieve? Limitations of open market operations and of bank rate policy. Linking of indigenous with organised banking. Remittance and rediscounting facilities. The heavy stamp duty. Rupee import bills. Rupee export bills. Other drawbacks. A hopeful feature. Difficulties in the way.