



## PREFACE.

As is well known the Currency policy of the Government of India following their adoption of the Babington-Smith Report has evoked very serious protests from the Indian Commercial Community and the action of Government and the grounds on which it was claimed to be taken have been very strongly criticised in the public press in Bombay. It has been thought desirable to reprint in a handy book form such of this matter as summarises these protests and criticisms most effectively, so that it can be perused at leisure by those who are not in a position to follow a day-to-day newspaper controversy. It is hoped, in this way, to focus the attention of all those interested in the welfare of this country, to this question of India's Currency, a right solution of which is vital to the future progress and development of this country.

In the latter part of the book are given four appendices in which the reader will find the Minority Report of the only Indian Member, Mr. Dalal, and the Memorandum on this question presented to the Currency Committee by Sir Stanley Reed, the well-known Editor of *The Times of India*, who has made a very close study of the question of India's Currency and Exchange. There is also given the announcement of the Secretary of State which heralded the new Currency policy in February 1920.

The Finance Member of the Government of India in virtue of his Office has of necessity been the official exponent and defender of this new policy and his speech on the Coinage Act Amendment Bill which is evidently regarded by Government itself as the best exposition of the Government

case is also included in the Appendix, so that our readers may know what Government has to say in defence of its new Currency policy. A criticism of the principal arguments of this speech will be found on pages 127-128 of this book.

If the publication of this book helps in any degree, however small, to a correct appreciation of the situation and a reversal of the new policy, the publisher will consider himself amply repaid.

## A CHAPTER IN INDIA'S CURRENCY HISTORY.

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In May 1919 a Committee was appointed by the Secretary of State for India to advise in regard to the future of Indian Exchange and Currency. Its terms of reference were—

1. to examine the effects of the war on—
  - (a) the Indian Exchange and Currency system and practice ;
  - (b) the Indian Note Issue ;
2. to consider whether in the light of this experience, and of possible future variations in the price of silver, modification of the system of practice may be necessary,
3. to make recommendations—
  - (a) as to such modifications ;
  - (b) as to the policy that should be pursued with a view—
    - (1) to meeting the requirements of trade ;
    - (2) to maintain a satisfactory circulation ; and
    - (3) to ensure a stable Gold Exchange Standard.

Their Report was submitted to the Secretary of State in December 1919. It was remarkable for the fact that of its eleven members only one—Mr. Dadiba Dalal—was an Indian, and this solitary Indian Member found the divergence between his own views and that of the other members of the Committee on vital currency principles so great as to render it impossible for him to concur with the views of the majority. He therefore felt himself compelled to make a separate

**Minority Report.** The main recommendation of the Majority Report was that

the stable relation to be established between the Rupee and gold should be at the rate of Rs. 10 to one Sovereign while Mr. Dalal in his Minority Report insists that the money standard in India should remain unaltered, that is the standard of the Sovereign and gold mohurs with Rupees related thereto at the ratio of 15 to 1.

A copy of the Minority Report is given in the appendix for ready reference.

The Secretary of State adopted the Majority Report in its entirety and the same was announced in a despatch, published at the end of January 1920, a copy of which is also given in the appendix. This despatch was published on the 2nd February 1920 in India and immediately thereafter came a press communique as follows :—

It is notified for general information that the rates at which Reverse Councils will be sold on Thursday, the 5th February 1920, will be

For immediate T. T. . . . .	2-8½
„ deferred „ . . . . .	2-9

With this communique was opened a new and most discreditable chapter in India's Currency History. It may be well to note here that the market rate of Exchange was then only 2-4.

Correspondence began to appear in the papers both on the Majority Report and on the question of Reverse Bills. In a letter to *The Times of India* published on the 4th February Mr. B. F. Madon very strongly criticised both the new ratio and the rate for Reverse Bills. We give this below :—

TO THE EDITOR OF THE TIMES OF INDIA.

Sir,—The commercial community here must be deeply thankful to you for providing it with the complete report of the Indian Currency Committee by publishing it in your columns, as this report had been awaited with great anxiety by all concerned.

In your leading article of the 2nd, you comment on this report and invite correspondence from those who have studied the question. As one who has given very

close attention to the subject, let me say at once that the report has been a great disappointment, because the substance of all the platitudes with which the Majority Report has been filled is to leave us as we were. This might seem an exaggeration, but let us remember why this Committee was appointed and what our real difficulties were, that they were invited to solve if possible. Our real difficulty has been to find sufficient silver to provide the necessary currency to meet our heavy export balance of to-day, and the report gives no solution whatsoever of it. It wants us to maintain the full cashing of the notes, wrongly termed convertibility, but it gives no indication where all this silver is to be found. What the real significance of the report is has been promptly shown us by the big jump in silver in the last few days which clearly tells that the silver magnates consider that the Government of India is more deeply than ever entangled in their meshes, and that they would now get India to pay any price for silver that they might think fit to ask. If the Currency Committee had no solution to offer to us of this difficulty, they might have said so, and gracefully retired, but they have done much worse. It is a mockery to make India more dependent than ever on silver as pointed out above, and to speak in the same breath of linking it with gold. On this pretext they raised the gold value of the rupee by 50 per cent., namely from 7·5334 grains fine gold to 11·30016, which they had absolutely no warrant for doing, because to any one who correctly understands the Gold Exchange Standard, our rupee has been linked on to gold at the rate of 7·5334 grains to the rupee ever since we adopted the Gold Exchange Standard. We are treated to a lot of the usual platitudes about the measure bringing the enormous profit of 12½ crores per annum to the Government on its remittances for home charges without doing any serious harm to the export trade but they fail to tell us where this enormous sum is coming from. Does it drop from the heavens? and if such enormous sums can be saved to the revenues without doing any serious harm to any one, why do we not at once raise the exchange to 4s. and make double these profits. The

fact, Sir, that these home charges are like any other payments that India may have to make abroad, really met by the exports of Indian produce. Let us see what really happens. To meet £25,000,000 of home charges we have to export £25,000,000 of produce and if the exchange is Rs. 15 to the £, the Government has to pay 37½ crores of rupees, while the producer gets 37½ crores for his produce. By making the rate Rs. 10 to the £, the Government will, of course, be paying only 25 crores of rupees and thus making a profit of 12½ crores of rupees, but the producer will be getting only 25 crores for his produce, *i.e.*, losing 12½ crores of rupees that he would otherwise have got. I hope it will now be clear to your readers that these profits of 12½ crores do not fall from the heavens but are really taken out of the pockets of the producer of this country. As it is admitted on all hands, this producer—our agricultural class—is sunk in poverty and in debt, and it is, therefore, the height of iniquity to rob him in this way of one-third the legitimate price of his produce, and the iniquity becomes all the greater when it is the Government that does this robbing to benefit its own revenues. I sincerely congratulate Mr. Dadiba Dalal, the only Indian member, on the great moral courage he had shown in stoutly protesting against this change in the basis of our token rupee, and hope our leading public bodies will take up this question in right earnest, as it affects the fundamentals of the economic welfare of the country.

One of the recommendations of the Committee is the selling of Reverse Councils during periods of exchange weakness. This is strictly in accordance with the principles of the Gold Exchange Standard, but the way the Government seems to be going to now give effect to it must astound every student of the subject. For, what they promise to do is to give sterling in England against rupees paid in India at the laying down rate for gold. Now, as sterling and gold have drifted wide apart, this really exposes the Government to a gamble in dollar exchange, because the sterling payable in London will depend on the rate between London and New York, and, as you point out in your leading article this would

come to over 2s. 9d. at the present rate of exchange between London and New York. If the Government offers Reverse Councils at any such rate it will simply mean that each rupee that they had sold only a couple of weeks ago at 28d. they are buying back at 33d., without any guarantee that later on they will be able to sell the same rupee back at 33d. or higher. In short, the Government will be assisting at a huge gamble in dollar exchange and in gold, and its action is sure to create very heavy speculation in these directions both in India and in London and New York. I submit that the Government has no business to expose India to such a gamble and that any obligation however far fetched that it might deem itself to have incurred towards any section of the commercial community cannot justify its selling Reverse Bills at any higher rate than 2s.

I shall go further and say that in the present circumstances of India's balance of trade the selling of such Reverse Councils at any rate whatsoever is absolutely unjustifiable. We are told that it is the enormous export balance that is the cause of all our present difficulties. Now, Reverse Bills are practically in the nature of additional exports and if our difficulties are really due to the heavy export balance, it is not the business of Government to add to these difficulties by increasing such export balance by means of Reverse Bills. Let those who want to lay down sterling in England do it by buying Export Bills with their rupees, and thus help to adjust our balance of trade instead of having recourse to the Secretary of State for Reverse Councils. I urge all Indian Chambers of Commerce to take up this question in earnest, and enter their strong protest against any sale of Reverse Councils until it has been shown that the net balance of India has become adverse, which most emphatically is not yet the case to-day.

B. F. MADON.

The sales of Reverse Bills continued to be advertised week by week and a further protest was raised by Mr. Madon in the columns of *The Times of India* of the 14th February. This is what he says :—



## TO THE EDITOR OF THE TIMES OF INDIA.

" Sir,—Before the Indian Currency Committee was appointed, Chambers of Commerce and public bodies kept bombarding Government with representations on the necessity of establishing our rate of Exchange and complained of the very erratic fluctuations in the exchange value of the rupee as highly injurious to all legitimate trade. I wonder what all these bodies are now doing? Has our rate become stable? Manifestly not, because the fluctuations have been far more rapid and far more erratic since the Report is out than they ever were before. If their former representations were not all so much hot air they should now make themselves heard even more powerfully than they did during the past two years when the fluctuations had remained within very moderate limits comparatively speaking.

Then, there was at least this to be said for the fluctuations that they were the result of our very heavy balance of trade and the difficulty of getting sufficient gold or silver to adjust our favourable trade balance.

Is there any such justification to-day? The rate is now being raised by means of sales of Reverse Bills. The rate is claimed to be based on the price of gold and so to the uninitiated it may seem that the authorities are not to blame for what is happening. I wish therefore to point out that another great injury is being done to our trade and industry under the cloak of the Gold Exchange Standard, and if the authorities at all understand this wonderful standard of theirs, then the present sales of Reverse Councils are a most deliberate wrong to the producers of this country. Let us see what these Reverse Bills are and why they have to be sold and when:

1. Reverse Bills are the device in the Gold Exchange Standard System for what would be export of specie in ordinary Gold Standard countries.

2. Export of specie becomes necessary when other exports fail and the balance of trade goes against a country.

3. When exports thus fail, *i.e.*, when export of specie became necessary the effect on a country's currency is to depreciate its value in terms of foreign currencies. Applied to India the sterling rate should go lower.

4. The mere going lower of the exchange rate does not immediately call for specie shipments. It must go so low that it is at the gold point before specie can go out.

5. In Gold Exchange Standard countries like India the gold point is arbitrary. It is the theoretical rate for the token rupee less the charge that would be incurred if we really shipped gold. As rightly or wrongly 2s. has been adopted now as this theoretical rate the gold point should be 2s. less this charge say 1-11 $\frac{1}{2}$ . I shall be told that the rate is 2s. gold. I refer to this point further on.

Now, do Reverse Councils as sold now fulfil these tests. The most important test is that exports would fail, trade balance become adverse and our rate break down.

Have our exports failed us? We are in the height of the season both at Bombay and Calcutta and produce and textile fabrics are ready to be exported. It is true business has temporarily come to a standstill, but that is due to the raising of exchange against us by means of these Reverse Bills. Has our trade balance become adverse? The figures so far published strongly point the other way. We have further proof of it in the very rate of exchange. If our trade balance was really adverse our rate would have to break down, *i.e.*, where 3 or 4 weeks ago we were at 28*d.*, we would to-day be at 25 or 24. Instead we are to-day at 35*d.* this sensational jump upwards proving that our balance of trade must be highly favourable as Reverse Councils can only be called into operation if our balance is adverse, there is absolutely no justification for such councils to-day.

The iniquity becomes all the greater when we remember the effect of such Reverse Councils. The rate of Reverse Councils is practically the lower gold point rate. Therefore issuing Reverse Councils is the same as propping up exchange from below. To prop exchange up thus by

not one but several pennies at a time and thus seriously handicap our exports and to use India's dearly acquired sterling resources for this purpose is an act of exploitation that calls for the strongest protests from all interested in the economic welfare of India. It is again exploitation for the sake of England. I challenge any one to show that our own (India's) balance of trade has to-day become so adverse that exports are insufficient to pay for imports and Reverse Councils are therefore the only possible mode of payments. The balance of trade is adverse but not of India. It is England's balance that is adverse and India's sterling resources are being used to adjust this balance and at a most ruinous rate. We were compelled during the war to accept payment in sterling instead of gold at 16*d.* and 18*d.* and we are now made to pay out the same sterling funds at the rate of 33 to 36*d.* Our Indian publicists have been clamouring for a real gold standard. I call their attention to this frittering away of our sterling resources and at a rate which means the wiping off of half our assets.

If all this was done without doing further harm to India it might still be bearable, but here the Government steps in and takes away the remittances that ought to go to the cover of our exports and does it at higher and higher rates. Should we allow this to pass without protest? Should we not insist that the instrument of Reverse Bills should not be brought into operation unless and until our trade balance is shown to be adverse by remitters finding difficulty in getting their remittances away through the ordinary channel of export bills and this can never be the case until our rate shows signs of breaking down.—Yours, etc.

B. F. MADON.

Then Mr. S. R. Bomanji in a letter to *The Times of India* and printed in its columns on the 17th February very supported Mr. Madon's protests. In the course of this letter he says :

An enormous wrong and legalised plunder of India's resources are taking place at the present moment. It is

nothing more nor less than an organised loot of our sterling resources which it has taken us so many years to accumulate.

This charge of "organised loot" was very keenly resented in high official quarters as we shall see later on. Here we shall give this letter *in extenso*.

TO THE EDITOR OF THE TIMES OF INDIA.

Sir,—I was very glad to notice in *The Times of India* a letter by Mr. B. F. Madon, on the effect of Reverse Sales that are going on weekly, unfortunately for our country. Very few people have taken interest in currency matters, and I am quite prepared to admit that it is a subject which does not lend itself to be easily understood. There are certain outstanding features of the currency situation which cannot but attract the attention of an ordinary business man.

Mr. Madon has tried to put lucidly before the public the position as it exists to-day, and the effect of the sale of Reverse Bills as to how it affects our sterling balance and our trade. As Mr. Madon pertinently asks, what is the reason that has induced the Government of India to advertise these Reverse Sales? Either that the balance of trade is against us, or that our creditors demand from us their dues. As a matter of fact it is neither. Indians, therefore, have a right to demand in whose interest these sales are being made. The virtual effect of these sales is to ship our gold out of the country, but, as Mr. Madon has shown, neither the balance of trade nor our international position justify a resort to Reverse Councils.

Sir, an enormous wrong and legalised plunder of India's resources are taking place at the present moment. It is nothing more nor less than "an organised loot" of our sterling resources, which it has taken us so many years to accumulate. It fills me with amazement, to see the apathy of our public men who sit unconcerned at what is going on under their eyes. Take just one instance. We have a certain amount of gold in Paper Currency, Gold

Standard Reserves and Treasury Balances, and this for one reason or another, but mainly for the purpose of helping the British Exchequer, was transferred from India to England. As it is common knowledge, during the war, the balance of trade in our favour was enormous, and under ordinary circumstances, we would have been justified in demanding gold or silver in liquidation of this favourable balance of trade, but in order not to embarrass England and the Allies, we accepted British Treasury Bills in satisfaction of our dues for successive seasons of favourable balance of trade. The amount thus standing to our credit by way of Gold Reserves and Treasury Bills approximates to about 140 millions sterling. The current rate of Exchange, when these Gold Reserves and Treasury Bills were credited to India's account, was 1s. 4d. or thereabouts. That is, the sterling value represented in our currency would come to about 210 crores of rupees. At the rate at which the Reverse Bills were sold last Thursday 2s. 10 $\frac{3}{4}$  d., a pound sterling is valued at less than Rs. 7 per sovereign. Our reserve funds of 210 crores of rupees has at this reckoning shrunk to 98 crores of rupees. This was the loss to which I alluded in my speech at the Industrial Conference last month, and which, I urged, ought to have been debited to the British Treasury. What steps have our administrators, who pose to be our trustees, taken to get this wrong righted? Has there been even a passing reference, either in the Currency Committee Report, or elsewhere, to show that they are conscious of it?

The immediate effect of the sale of Reverse Councils is to drain the resources of the money market into the coffers of the Government, and this just at a time, when, on the one hand, owing to revenue collections, very large amounts of money are passing into the hands of Government, and on the other, our export trade being at its height require all our resources to finance it.

The policy now pursued has caused a serious stringency in the money market, and unless it is checked immediately consequences will follow which are too disastrous to contemplate. All this talk of looking after the Indian

trade interest sounds like downright hypocrisy, when judged by the effect of these Reverse Sales upon our trade and our international position. And I wish, Sir, that you would take up this question and warn our people about the great danger that is facing us, and urge that unless we raise a very strong opposition and that too immediately, untold harm would be done to Indian trade and industry. If our gold reserves are going to be frittered away in this unconscionable manner, our position would very soon be turned from a creditor into a debtor country, should we be faced with another serious famine. Are our members in the Viceregal Council going to stand by and let the Government pursue this ruinous policy? Their most pressing duty is to call the attention of the Finance Member, that unless these Reverse Sales are at once stopped, a situation will be created the like of which in its calamitous consequences will not have been seen before.—Yours, etc.

S. R. BOMANJI.

This was followed up by another letter appearing in the same paper in its issue of the 17th February from "A Business Man" from which we take the following:—

One hoped-for result from the Currency Commission's Report was stability of Exchange and I submit that Exchange has become more unstable as a result of this Report than at any period of 12 months past. Investors attracted by a high rate of Exchange have been throwing their investments on the market at best rates to get their funds Home whilst rates are at this high level. Speculators have also found an opportunity of gambling in Exchange for example remitting money Home round 2s. 10d. in the hopes that they may bring it back again within a short period at say 2s. 4d. or 2s. 6d. as the case may be. Another factor has crept into the situation and that is that the amounts absorbed by Government each week from their sales of Reverse Councils have automatically been absorbed from the market thus assisting in a money stringency at a time when trade was exceedingly brisk. It seems to the writer that all

that Government should have undertaken to do was to offer Reverse Councils when Exchange looked like going below 2s. and not to create an artificial inflation of the rate of Exchange as they have done as above. It is my considered view that if Government at this stage adopts this course they would be breaking faith with banks and firms who have operated on the strength of the recommendations of the Currency Commission Report. I submit that it would be better for Government to confess their error and make good any *bonâ fide* loss which a bank or firm could prove had been occasioned to them rather than to continue what appears to me their present policy. I well know that at the present moment they have ample resources in London to stand up to drawings from India, but what was ample 5 or 10 years ago may not offer anything like the same margin of safety under present day conditions. I think Government can place too much faith upon their recollection of the famine year when a sum of only £8,000,000 was drawn from their resources before they were able to correct an adverse trade balance. To-day we are confronted I think with a very different situation; on the one hand we have rates of Exchange which few of us had hoped to see and the natural feeling is to get money Home to the old country on that account.

It will be seen that the writer warns the Government that

“What was ample 5 or 10 years ago may not offer anything like the same margin of safety under present day conditions.”

He further warned the Government that

“this drain on the sterling resources of Government is taking place prior to the monsoon the course of which no one can gauge at this time”

but this warning from one who was evidently a friendly critic went unheeded and the sales of Reverse Bills continued and evoked an emphatic protest from the Indian Merchants' Chamber and Bureau, the leading representative body of Indian Merchants' and Industrialists. In a telegram

addressed both to the Secretary of State and to the Government of India the Committee of this Chamber say

“ The Committee of the Indian Merchants' Chamber view with great alarm the action of the Government in selling Reverse Councils at such high and fluctuating rates propping up an artificial and an arbitrary rate of exchange, killing export trade and causing grave stringency in the money market by directly encouraging the withdrawal of British capital from India and the export of Indian capital. The motive for such action is not clear and the commercial public would welcome a statement of policy immediately, explaining the reason for such action. The Committee strongly deprecate these sales and urge their immediate abandonment as under the present artificial conditions, they are, in the opinion of the Committee, absolutely unjustifiable.”

The absurdity of the sales and the iniquity of the rates at which the Bills were being sold was further exposed by Mr. Madon, in a letter to *The Times of India*, dated 19th February 1920. This is now reproduced here :—

#### TO THE EDITOR OF THE TIMES OF INDIA.

Sir,—In my previous letter I have tried to make it clear that Reverse Councils could not be sold except when the trade balance of India is adverse, and exchange is on the point of breaking down. I have further pointed out that this is most emphatically not the situation to-day, and that therefore the sale of these Reverse Councils to-day is a most unjustifiable dissipation of India's resources.

I will now take up the point of the rate at which these Councils should be sold. I have already pointed out that this rate should theoretically be the lower Gold Point rate. In other words, it should be the gold equivalent of the rupee less the charges incurred in shipping it to its destination in the foreign creditor country. Those that have not very closely followed doings of our Currency Authorities will now be inclined to say that the rate at which these bills are sold is there-



fore correct. I say it is nothing less than frittering away the resources of India. I will explain why.

Let us first see from what funds these Reverse Bills have to be paid. It is from the treasury balances of the Secretary of State, the sterling assets in the Paper Currency Reserves, and finally, the Gold Standard Reserve, that payment is made at Home. Now, if we had been given gold when India's assets were being piled up in London during the last five years, we could fairly be asked to pay out in gold. But were we given gold? No we were not. On the contrary, and in spite of repeated and very emphatic protests from public bodies in this country, we were compelled to accept not gold but sterling. To-day the position is reversed and we are being compelled to pay real gold.

Let us see a step further almost the whole of the Gold Standard Reserve, and the bulk of our other resources in sterling were put in an average of 16 to 17*d.* This translated into figures, means that for every Rs. 1,500 of our valuable assets we were compelled to accept £100—£105 and to-day we made to pay at 2*s.* 9*d.* to 2*s.* 11*D.* This means that when we had to receive Rs. 1,500 we only got £105 and when we have to pay Rs. 1,500 we are made to pay £210. In other words, by this pretence at sound currency, we are made to pay out twice what we ever received. I again ask your readers if this is right or fair? Is it always to be "Heads I win, Tails you lose," where English and Indian financial interests come in conflict? If we were not allowed to get gold in payment, why should we now be made to pay gold?

Let it be remembered that this payment—this sale of Reverse Councils—is based on the assumption that our trade balance is now unfavourable, that our exports no longer suffice to pay for our imports, and that India must therefore make up the difference in cash, *i.e.*, gold. But, I submit that this assumption is wrong, as huge amounts of produce are now awaiting export. We have further strong proof of the fact that India does not to-day owe gold to anyone, in the price of gold here.

I have already explained earlier that Reverse Councils are a device of the Gold Exchange Standard and are the equivalent of Gold Exports. If we were on a Gold Standard instead of the Exchange Standard, we would be exporting actual gold whenever the balance of trade went against India. Would we be so exporting gold in the natural course of trade to-day? The rupee is now made the equivalent of 120 grns. fine gold, therefore a tola (180 grns.) would be the equivalent of about Rs. 16. Therefore, if our trade balance really became so adverse that it called for exports of gold in the ordinary course of trade, the price of gold in this market would drop to Rs. 16 or less in order to make such exports commercially practicable. What are the facts to-day? Instead of Rs. 16 the price is Rs. 25 and strong buyers at that in this market. Therefore, far from exporting any gold India would be importing it to-day if gold was allowed to be freely imported. This is further proof that Reverse Bills—which means the paying out of India's gold—is not a natural consequence of India's present trade balance. The position is even worse. We know that the Government is retaining a monopoly of gold imports, and is charging Rs. 25 per tola and more to the people of this country. Through these Reverse Bills operations, it is giving away India's gold to the foreigner at Rs. 16 a tola. Is this done in the interests of this country? I say emphatically "No."

There is another aspect of the question. Even assuming that imports to-day overbalance exports, which I do not for a moment grant, but, I say, even assuming that they do, why should the Indian Government go out of its way to help the owner of these imports to remit his money Home, and that at unheard of rates? When our exports suffered for want of cover, the Government took up a non-possumus attitude, and left exports to shift for themselves so much so that 12-15 per cent. premium had to be paid to importers to secure remittances as cover for our exports. If the tables have turned to-day, (which I very much doubt) why should not imports be now also left to shift for themselves? Why should they not be also com-

pelled to seek cover in exports? Is all the solicitude of the Government to be for the foreign manufacturer (the producer of our imports) and not for the children of the soil (the producers of our exports) ?

Then we have to remember the enormous cost to this country of this disastrous policy. The Currency Committee in para. 53 of their Report estimate the depreciation of our assets in the Paper Currency Reserve alone at 38·4 crores. This is at 2s. exchange. At 2-10 the rate at which we are actually parting with these assets, the deficiency should be 61½ instead of 38·4.

The burden at 38·4 crores was heavy enough. At 61½ crores, it is stupendous. Should we allow this enormous burden to be placed on India's producers, because it is they that will have ultimately to meet it ?

Looked at from every point of view, this policy of Reverse Councils is disastrous to the interests of this country and I again urge all public bodies and public men to take up this question before it is too late, and insist that these Reverse Bills be discontinued.

B. F. MADON.

What the position then was is well described by Sir M. de P. Webb, a staunch supporter of the Government's currency policy, in the following words in a letter in *The Times of India* of the 22nd February :—

“ The publication of the Secretary of State's acceptance of the Committee's recommendations, and in particular of the Government of India's recent notification that Reverse Council Drafts will be sold when occasion requires, “ at rates based on the sterling value of the United State's dollar ” have resulted in an instability unprecedented since the time of the closing of the Indian mints to the free coinage of silver. India's export and import trade has become nothing more than a gamble of a most reckless and dangerous character. Sensible merchants are restricting their operations till some approach to stability in the sterling value of the rupee can be assured: but many other people who have never before

dreamt of dabbling in trade and finance are now rushing where experts fear to tread and buying, selling, transferring, and remitting to the utmost of their powers in the hope of rapidly reaping a fortune—at somebody else's expenses. Such speculations can only result eventually, in heavy losses and probably ruin for many. It is imperative therefore that the present unhealthy stimulus to reckless trading and irresponsible financial activity be checked as soon as possible."

The suggested remedy of Sir M. de P. Webb was to have fixed rates for Reverse Bills. *The Times of India* in a powerful leader in the issue of the 23rd strongly advocated that the Government should boldly and unequivocally suspend the Sales of Reverse Councils and of all foreign exchange through the medium of the Indian Post Offices immediately.

The more salient parts of this article are quoted below. The paper says :

It is difficult to imagine a more ironical situation than that which has arisen from the action which the Secretary of State has taken on the Report of the Currency Commission. The main work entrusted to the Commission was to make recommendations for the establishment of a satisfactory monetary circulation and a stable gold exchange standard.

On the eve of the issue of the report of the Commission and of the notification in which the Secretary of State took action thereon, Exchange was in the neighbourhood of two shillings and three pence. The effect of the notification was to raise Exchange to two shillings and eight pence. As no commercial bills were forthcoming at this price, and there was a heavy demand for remittances, both from speculators anxious to profit from probable variations in Exchange and from those desirous of remitting funds to England at this high rate, Reverse Councils had to be offered. The demand for these Reverse Councils has been unprecedented. Last week, for instance, for the two millions of Reverse Councils offered there were applications for a hundred and twenty-two

millions and applicants received one and a half per cent. The official rate for sterling remittance is two shillings and ten pence half penny, which is equivalent to the two shilling rupee recommended by the Currency Commission and accepted by the Secretary of State, plus the American cross rate, because America is the only free market for gold. The market rate is two shillings and seven pence half penny and few bills are forthcoming although there are immense quantities of produce coming forward for export, at this rate. The immediate effect of the recommendations of the majority of the Currency Commission has been to create the greatest confusion in the Indian Exchanges known in our history, and in place of the stability aimed at, to cause the most violent fluctuations in Exchange in the records of a prosperous country.

It then goes on to discuss how the Commission came to make the recommendations it did and then says again :—

“ Whether we agree with the recommendations of the Commission or reject them, we must in fairness admit that an extraordinary and quite unforeseen measure of misfortune has dogged their application. As America is the only free market for gold, the gold value of the two shilling rupee must be governed by the cross rate between America and London. At the time when the report was signed, the cross rate would have meant a rupee in the neighbourhood of two shillings and four pence, thus involving no immediate radical change in the rate of exchange. It is fair to assume that the Commission never anticipated that the dollar-sterling rate would fall below four dollars to the pound sterling. But the most notable feature of veritable chaos in all Exchanges this year has been the decline in the dollar-sterling Exchange. The result was the sudden rise in Exchange when the Secretary of State's notification was published in February 2nd and the sudden rush for Reverse Councils to take advantage of the artificial rise in the Indian Exchanges, caused by the fall in the American cross rate. Its effects cannot be better described than in the vigorous words of the letter

from Mr. M. de P. Webb which we publish to-day : "Sensible merchants are restricting their operations till some approach to stability in the sterling value of the rupee can be assured ; but many other people who have never before dreamt of dabbling in trade or finance are now rushing in where experts fear to tread, and buying, and selling, transferring and remitting to the utmost of their powers in the hope of rapidly reaping a fortune—at somebody else's expense. . . . It is imperative, therefore, that the present unhealthy stimulus to reckless trading and irresponsible financial activity be checked as soon as possible."

#### THE REMEDY.

How are this speculation and uncertainty to be stopped? Our difficulties have arisen in the main from the decline and fluctuations in the American cross rate. We associate ourselves with Mr. Webb when he says that whilst Government's decision to base their Reverse Council rate on the cross rate for the dollar is theoretically quite sound, in practice it is producing an instability in the sterling value of the rupee that is dangerous in the extreme. If there were any prospect of a very early stability in the American cross rate approximating to the commercial rate of exchange we might, although with extreme dubiety, tolerate these uncertainties. But the American cross rate is surrounded with so many uncertainties that we dare not run the risk. What then is the remedy? Mr. Webb suggests that Government should abandon the cross rate meter and announce fixed rates both for Councils and Reverse Councils, presumably approximating to the present market rate. We suggest that the Government should boldly and unequivocally suspend the sale of Reverse Councils, and of all foreign exchanges through the medium of the Indian Post Offices immediately. We are fully aware of all that this now connotes. It means a break away from the attempt now to fix the rupee at two shillings gold. That may be a hard decision to take so soon after the declaration of policy of February 2nd. Nevertheless any Government are well

within their rights in admitting that conditions over which they have no control have been too strong for them. The demand for Reverse Councils is not a genuine trade demand. It is a speculative demand, and a demand from those who are desirous of remitting their money to London at the very high rates offered. The ostensible demand bears no relation whatsoever to the actual demand. If those who asked for £122 millions last week had received their applications either in full or in large measure, many of them would be bankrupt to-day. We quite recognise that the prompt cessation of Reverse Councils might lead to a fall in exchange. If that fall were likely to be very heavy, it could not lightly be anticipated, for a rapid fall in Exchange would produce such disturbance, and probably lead to such a sudden rise in prices, that the effects would be disastrous. But we are authoritatively informed that there are such large quantities of produce coming forward for export and the world's demand for that produce is so acute, that no dislocating drop in Exchange need be feared. The figure given to us is that Exchange would probably crystallise round about two shillings and six pence.

#### A CASE FOR COURAGE.

It is obvious from all that has occurred, that the attempt to stabilize the Indian Exchanges at two shillings gold, based on the American cross rate, offers no prospect whatsoever of conferring stability, because of the instability of the American cross rate itself. An unstable force, which India cannot control, cannot even influence, dominates the situation. Whether, at a later stage, when the dollar-sterling rate is improved and stabilised it may be practicable to do what is theoretically correct is a matter for future consideration. But we go farther and say that the attempt to stabilise the rupee at two shillings gold, based on the American cross rate is fraught with so many dangers that we have no right to persist in it. In the past the demand for Reverse Councils has been a trade demand; it has been easily

satisfied, with quite moderate sales, from that balancing-reservoir of our currency system, the Gold Standard Reserve. The present demand is not a trade demand ; it is a speculative and transfer of capital demand. None can survey the situation in India without being acutely conscious that the conditions are such that any prolonged attempt to stabilise exchange on the lines in operation, may dissipate the whole, or the major part, of the Government's sterling resources not only without any compensating advantage, but at huge loss. Values have risen so high that the experience of the past is no safe guide. Whereas on former occasions of genuine trade Exchange weakness eight millions or so of Reverse Councils fully met the situation, with the present range of prices, three times that sum might be needed for the same purpose. But this is not a genuine trade demand. It is a speculative and a transfer of capital demand. None dare say, in the present conditions of India, where it will stop, or what insatiable calls it may make on our sterling resources. Therefore we urge that so far as can be seen, any attempt to secure Exchange stability based on the American cross rate appears to be doomed to failure, because of the extraordinary instability of the American cross rate. Therefore we urge that in view of the possible artificial demands on the Government's sterling resources, that attempt should not be persisted in. The trade position of India is so strong that the cessation of the sales of Reverse Councils is not likely, according to the information at our disposal, to lead to a dislocating fall in Exchange. The present Finance Member is known not only for his ability but for his courage. We make a strong appeal to him to take his courage in both hands ; to recognise at once that the policy which he accepted on the recommendation of the Secretary of State and the Currency Commission, whilst not necessarily unsound, has been defeated by extraneous circumstances ; that the pursuit of this policy is fraught with infinite dangers and that any effort to maintain it should be at once suspended until at least the condition of the American cross rate justifies a revision to it."



The letter from "A Business Man" has already been referred to. In that letter while he advised a suspension of the sales of these bills, he suggested that it would be a breach of faith with those banks and firms that had operated on the strength of the recommendations of the Committee's reports. Mr. Madon in a letter that appeared in *The Times of India* of the 25th February disputed this and pointed to another and far more serious breach of faith on behalf of the Government. He said :

If there is to be talk of any breach of faith what has "Business Man" to say of that other far greater breach of faith when Exchange was put up from its level of 1s. 4d. at which it had been for 20 years. Both the Chamberlain Commission and the present Currency Committee (see para. 7) note the standing offer of the Secretary of State to sell Bills without limit of amount at 1s. 4½d. per rupee and the Committee further remarks : "The price never exceeded this figure which corresponded to the theoretical gold point." The Chamberlain Commission also understood this standing offer as the upper gold point. To any one who understands what gold points are this offer was an irrevocable part of the gold Exchange system and it was lightly set aside. I call this a far greater breach of faith, and all the more heinous because the parties that really suffered by this breach of faith were not wealthy bankers, but the toiling millions of India. Again, what has "Business Man" to say of the present great breach of faith on the very fundamentals of the Gold Exchange Standard, by which the rupee which was the equivalent of 7.5334 grains of fine gold is now made the equivalent of 11.30016 grains. But the real sufferer by these breaches of faith is our producer and cultivator, too poor and too inarticulate to ventilate his grievance, and so these far more serious breaches of faith have hardly called for any protests here. I shall be glad to hear what "Business Man" thinks of them.

As has already been said Mr. Bomanji's charge of "Organised Loot" was seriously resented by Government and by the

friends of the Government of India. Sir M. de P. Webb denied the charge and claimed that

the Government are manifestly acting correctly in responding to the public demand for Reverse Councils.

To this Mr. Bomanji replied in a letter to *The Times of India* published on the 26th February as follows :—

TO THE EDITOR OF THE TIMES OF INDIA.

Sir,—I notice a letter in your this morning's issue from Mr. M. de P. Webb of Karachi. Mr. Webb doubts the propriety and the fairness of my protest against Government action in selling Reverse Councils. Mr. Webb considers that Government are acting correctly in responding to the public demand for Reverse Councils, and that I am not right in characterising the Government action in satisfaction of the demand as "organised loot of India's sterling resources." Fortunately, Mr. Prophulla Chandra Bassu's contention in his letter to you to-day that what has been built up at Rs. 15 to the pound is being sold at less than Rs. 7 would be sufficient answer to illustrate what I mean by "organised loot of India's sterling resources." Can Mr. Webb deny that funds belonging to India lying in Europe are being transferred to this country at ruinous rates involving serious loss? Can he deny that this is being done by a mere executive order without any chance given to public opinion to make itself heard? Everyone can agree with Mr. Webb or with Government when they say that a serious situation is arising but if the situation is serious why is the Government inclined to act in an arbitrary manner?

Mr. Madon in a separate letter to the same paper (25th February) explained why the sales of Reverse Bills at the rates adopted by Government were wrong and unjustifiable. We quote this letter here :—

TO THE EDITOR OF THE TIMES OF INDIA.

Sir,—In *The Times of India* of the 23rd instant there is published a letter from Mr. M. de P. Webb in which

he points out the undesirability of the position created by the Government's policy in the matter of Reverse Bills, and suggests a remedy. In doing so, he argues that the "Government's decision to base their Reverse Councils rate on the cross rate for the dollar is theoretically sound although in practice it is producing an instability in the sterling value of the rupee that is dangerous in the extreme." I would like to point out that even theoretically the action of the Government is not sound in the present set of circumstances. I will try and explain why.

Let us see what the theory should be, and on what it is based.

In purely Gold Standard countries (like England in pre-war days) Notes are issued against Gold deposited in the Currency chest, and this Gold is again paid out when any one presents these Notes. The person in charge of the Currency chest is in the position of a warehouseman who has taken in goods and issued warehouse warrants against these goods entitling the holder of such warrants to present them and get delivery of the goods so deposited. The Currency chest is the warehouse, the Bank of England (in the case of England) is the warehouseman and the Notes are the warrants entitling the holder to get delivery of the goods deposited (*i.e.*, gold). If your readers will clearly keep this analogy before them they will see that the holder of the warrants has no right to call for other or more valuable goods than had been originally deposited at the warehouse. If the goods originally deposited were cotton cloth, no holder would have any right to call for silk against presentation of his warrants. If it was a case of ordinary merchandise, the thing would appear absurd to every one on the very face of it.

Now let us apply the analogy to the case of India, a Gold Exchange Standard country. The Gold Exchange Standard of India was devised to avoid waste of Gold in internal circulation, but, in every other respects was the same in principle as the ordinary Gold Standard. It called for Notes being issued against Gold deposited in

the Currency chest in London, and for Gold being again paid out against presentation of such Notes. In this case, the Secretary of State was the warehouseman, the goods were the Gold paid in in London, and the warrants were the Notes and the Rupees (which are practically Notes printed on silver) issued here. Therefore, if the goods originally deposited with the Secretary of State were Gold, he would be theoretically quite correct in paying out Gold when the holders of the warrants called for delivery. In pre-war days, sterling was identical with Gold, as the Bank of England undertook to pay out Gold against sterling. Since the beginning of the war, the case has been quite different. It is notorious that the Bank of England was not prepared to give Gold to the holder of Notes in England. Knowing this full well, the Secretary of State issued rupees in exchange for sterling and not gold. Therefore, the goods deposited in the Currency chest was sterling not gold, and the holder of the warrants on this chest, *i.e.*, the holder of rupees and rupee notes, has no right whatsoever to call for what he has not deposited. He has therefore no right to call for gold where the original deposit was in sterling.

I therefore submit that the issuing of Reverse Bills in the way it is done now, *i.e.*, the payment of gold where the original deposit was in sterling is unjustifiable even in theory.

Applying my above analogy again, suppose that the warehouse contained both cotton and silk bales. Suppose that the depositor of the cotton bales was Smith, and of the silk bales Jones. Suppose Smith presented his warrants which showed that only cotton bales had been deposited, and induced the man in charge of the warehouse to hand over the bales of silk. How would you characterise the action of this man in charge of the warehouse? And yet, the present action of the Secretary of State is absolutely of the same kind. He allows himself to be induced by specious reasoning to part with silk (gold) to the depositor of cotton (sterling).

Mr. M. de P. Webb suggests that instead of following the New York-London Rate, the Government should

advertise fixed rates for Councils and also for Reverse Councils, but he would seem to advise unlimited quantities to be sold at such fixed rates.

May I point out that the analogy of the warehouseman indicates both the rate and the quantities? The Secretary of State on this analogy—

(a) Must not deliver a higher kind of goods than that originally deposited.

(b) Must not deliver a larger quantity than that originally deposited.

Now, Council Bills mean the original deposit of goods against the issue of warrants (rupees). Reverse Councils mean the reverse of this, *i.e.*, the handing out of such goods against the presentation of the warrants.

Let the Secretary of State find out what was deposited against the latest series of warrants. He will find that the latest series of warrants (rupees) was issued against a deposit of 2s. 4d. "sterling" each. Next let him find out the quantity so deposited (*i.e.*, the total amount of Councils sold at this rate). Let him offer to pay out (deliver the goods) at the rate of 2s. 4d. until the total amount at this rate is exhausted, and then go on to the next rate and the quantity deposited (*i.e.*, Councils sold) at such rate. Doing anything else would be as serious a dereliction of his duty as the guardian of the Currency chest of India as the delivering of silk to the holder of warrants of cotton bales:

B. F. MADON.

The agitation in the Indian Commercial community continued to grow and a few of the leading citizens came together in the office of Sir Dinshaw Petit to consider the desirability of holding a public meeting of protest.

In the meantime the Government came forward with a communique intended to defend their action in the matter of the Reverse Bills. We quote this here—

The effect upon the trade and the money market generally of the acceptance of the currency policy recom-

mended by the Exchange and Currency Committee, which recently concluded its deliberations, has formed the subject of close and continual consultation between the Secretary of State and the Government of India, and the special measures which should be adopted to meet the situation which has arisen as a result of the initiation of that policy has been carefully considered.

2. The recent sales of the Reverse Councils have brought into prominence the large accumulation in India of war savings intended for ultimate remittance to England and held back pending the settlement of the future currency policy to be adopted. This policy having now been declared it was inevitable that these accumulated sums should seek early remittance, the more so in view of the heavy fall in the dollar-sterling exchange which occurred at about the time the policy was announced. Until the demand for remittances created in this and similar ways has been in a large measure satisfied and the balance of trade in India's favour can exert its normal effect, it is impossible that the new currency arrangements should become fully operative or the exchange follow a course which more settled conditions alone can establish. A second feature of the situation attributable to much the same causes as the first is the present stringency in the Indian money market, which is probably an indication that deflation is proceeding at a rate to which the markets cannot readily adjust themselves. The problem, therefore, which has presented itself is to secure that Government's resources accumulated in England during the war are applied in the most efficient way towards satisfying the demands for remittance, while at the same time alleviating the tightening influence which such remittance might otherwise have upon the markets.

#### THE MOST EFFECTIVE SOLUTION.

3. As the most effective solution of this problem the Government of India have decided, in consultation with the Secretary of State, to introduce in the Legislative

Council legislation for the retention of the power to hold securities in the Paper Currency Reserve up to the present admissible limit, but without the existing restrictions on its distribution between rupee and sterling securities. This measure is calculated to facilitate the further continuance of the sale of Reverse Councils without necessitating the locking up in the Currency Reserve of funds withdrawn from the Indian markets to the full extent of the sterling securities sold out by the Secretary of State.

4. It is clear that the present exchange situation is being exploited by speculators who are not themselves genuine remitters, but who are taking advantage of the facilities given by Government in the form of Reverse Councils and obtaining sterling credits with a view to secure a profit on their resale. In the case of all future sales, therefore, Government reserve the right to refuse any tender absolutely without assigning reasons, and this right will be freely exercised in all cases in which there is reason to question the status of the tenderer as a *bonâ fide* remitter.

The above communique was most unfortunately drafted and instead of clearing the position of the Government in the eyes of the public this communique made it still worse. In the following letters Mr. Madon analyses this communique and shows how untenable the argument advanced was and how damning some of its admissions and implications.

TO THE EDITOR OF THE CHRONICLE.

Sir,—The great outcry against the action of the Government in the matter of the Reverse Councils has compelled them to issue in defence of their action a communique, dated Delhi, 23rd February, but instead of helping to re-establish our Currency authorities in the esteem of the business community, this communique will have the very opposite effect, as it is based on assertions which have no justification in facts, and there is the further admission that the action of the Government is being exploited by speculators for their own

benefit, which admission by itself is sufficient condemnation of the policy the authorities are pursuing.

The first wholesale assertion made is that the sales have "brought into prominence the large accumulations in India of war savings intended for ultimate remittance to England, and held back pending the future currency policy to be adopted."

May I point out that this one sentence is full of unfounded assertions and implications? How did the sales bring such accumulations into prominence? Was it by the amounts applied for? Do the Currency authorities seriously want any one to believe that the £122 millions applied for last week represent such *bonâ fide* accumulations waiting to be remitted Home? Do they believe it? Evidently, not, because they themselves say (in para. 4) that

"it is clear that the present exchange situation is being exploited by speculators who are not themselves genuine remitters, but who are taking advantage of the facilities given . . . to secure a profit on their resale."

This shows that the applications are to the belief of the authorities themselves speculative, and do not therefore show the accumulations awaiting remittance Home. (Next) whose accumulations are they? Has the Government a title of evidence that there are accumulations by Englishmen retiring Home, and who naturally want their assets to be transferred to the other side? Who else can want such transfer? Not people of this country because if any such want to transfer funds it can only be in order to profit by the lower rates in the not distant future when the Bank of England resumes specie payments, and the £ is again worth Rs. 10 instead of the Rs. 6-14 at which our Government is throwing it away to-day.

The next assertion that all these accumulations were being held back pending the future currency policy to be "adopted" shows entire ignorance of currency matters by the framers of this communique. For, as we all know, on the eve of the publication of the reports,



the exchange was 2s. 3½d. T. T. and weak even at that rate. This showed clearly that it was not remitters that were holding back, but drawers of bills, and that the Banks were unable to sell T. T. because they could not get sufficient cover of export bills. This is nothing surprising either when we remember that rumours were then rife in the market that the Committee had recommended the 2s. rate, some saying it was gold rate and some saying it was the usual 2s. sterling.

Your readers will now see the hollowness of the defence now put forward by the Currency authorities, and if they cannot find any better arguments, they must be indeed hard put to it for one.

Next let us see the consequences of their admission that the situation is being exploited by speculators. Why are speculators after these bills? Clearly because they see chances of big profits in the operation. What are these profits? The Government to-day sells the £ at Rs. 6-14 and the speculator sees that one day this £ will be Rs. 10 when he can reverse the operation, and get his funds back here at a profit of 40 per cent. Surely, a profit good enough to tempt angels. After offering such temptation to the trading community, why are Government surprised at the enormous speculative tenders? Are they not themselves to blame?

Even assuming their very lame defence that there are accumulations of war-profits awaiting remittance Home, what business has the Government to offer these war-profiteers this further profiteering chance of 40 per cent. on remittances Home?

Perhaps the Currency authorities will say that this return of the £ to 10 rupees is problematic. If they do, then they must be thinking that England is bankrupt or on the point of being one. Because unless they believe this which means that England is not likely to resume gold payment, at least in the near future, why do they throw away our sterling resources at these ruinous rates to-day? Is it simply to oblige these war-profiteers that we are doing all this?

Or, is it something still worse? Is the financial position of the Government so bad here that it is urgent to transfer our funds from London to India as promptly as possible, and at any sacrifice?

If neither of this is the case, *i.e.*, if England is not bankrupt, and if the Government here is not in a tight corner, what justification have they for selling away our sterling credits at Rs. 6-14 per £? We waited 5 years to suit the convenience of England and the Allies. Was it all in order to be ourselves ruined as soon as their need was over. And to be ruined at whose hands? At the hands of a Government who year in and year out tell us that they were the trustees of the welfare of the people of this country. What would we say of a trustee that auctioned away the assets of his wards as 6,000 knowing full well that by patient and careful realisation, he could get 10,000 for the same?

The Government talks airily of deflation, forgetting that if there has been inflation, it is they that are the most to blame. The money that circulates here is not bogus wealth created out of the printing press as in England and many other countries, but actual proceeds of India's produce sold abroad. We did not want to be paid in currency but in gold, and it was the Government that compelled us to accept currency instead. Does it come well out of their mouths to charge us with the consequences of their own wrong-doing?

They propose by allowing the Paper Currency Reserve to be either in rupee paper or in sterling securities to make the proceeds of their Reserve sales again available to the market. I shall be glad to get more details of how and through what agency this is going to be done. At present holders of their own Treasury Bills are coolly told by the Presidency Bank that it is not going to discount such bills. Evidently it holds the signature of the Government in less esteem than that of Marwari speculators. •

While there is this talk in the communique of releasing funds again to the market, this communique is very conveniently silent on the far more important question of

the very serious gaps in the backing to the Paper Currency Reserve. Including the sale advertised for the 26th, ₹11 millions will have been sold at Rs. 7 or less. They stood in the Currency books at Rs. 15. Therefore, the backing of Rs. 16½ crores is reduced to Rs. 7½ crores, the other 9 crores being a clean loss, and our Note issue being to this extent absolutely uncovered.

I wish our business men to wake up to all this before it is too late, because it is the producers and manufacturers of this country—the toiling millions of India—that will ultimately have to pay the piper.—Yours, etc.

B. F. MADON.

TO THE EDITOR OF THE TIMES OF INDIA.

Sir,—In their defence of their Reverse Councils policy as given in the Delhi communique of the 23rd February last the Government have given all that they had to say for their side of the case, and it has shown them up very badly, because they have been compelled to admit—

1. That the remittance was not called for by trade requirements.
2. That it was to help war-profiteers to remit their accumulations Home.
3. That these war-profiteers were actually holding back these accumulations (fancy the enormity of this admission. We know that it had been found so difficult to finance the export of essentials of war that Government went out of its way to arrange for their finance by guaranteeing Banks against the consequences of their over-brought position. Is it these war-profiteers who had by holding back remittances actually impeded the successful carrying on of the war that our benign Government is now out to help? Verily, they follow the precept of Christ—He who smites you on one cheek give him another?)

4. That it had called up enormous speculation. (Evidently our Currency authorities are unable to see why these speculators are so keen to get these Reverse Bills otherwise they ought to wake up to the fact that all these people are after the loot that is laid out before them.)

After these damning admissions, is it not high time for the Government to acknowledge the error of their ways, and to stop these disastrous sale of India's sterling assets at what everybody but them clearly sees are bargain prices?

One can but wonder at the wisdom of our rulers when in reply to all this outcry what they want to do is something even worse, *viz.*, to reserve the loot for the big men and prevent the small fry from having any hand in it.

Of course, it is put in very plausible language thus—(to baffle the speculator who has been too much in evidence) in all future sales the Government reserve the right to refuse any tender absolutely without assigning reasons, and this right will be freely exercised in all cases in which there is reason to question the status of the tenderer as a *bonâ fide* remitter.

This looks innocent enough, but how on earth is the Controller of Currency to determine that an applicant is a *bonâ fide* remitter? Are bankers to be considered *bonâ fide* bankers who get sterling from Government at 2s. 10d. and almost at the same moment quote it across their own counter at 2s. 7d.? Are Europeans to be considered *bonâ fide* because they have families at Home? Why is the application of an Indian to be disregarded as he too may have sons studying in Europe? And, if not disregarded, how is the Controller to get evidence of the reasons for which it is wanted? Is the application of merchants who import diamonds, or Manchester goods, or Birmingham hardware not to be *bonâ fide* and if it is, how is the *bonâ fides* to be proved as to the extent of the application? Is an application for £5,000 to be *bonâ fide* and one for £50,000 to be considered speculative?

The whole thing is impossible and unworkable, and is sure to lead to suspicion of jobbery in high places,

particularly as the profits on these amazing sales of our assets are great enough to tempt angels.

The only right course for the Government is to at once discontinue these sales, and I urge upon all our public men to protest with all their might against all these unjustified sales of our valuable assets, particularly after the gambling that they have invoked in the public.

B. F. MADON,

How rank the speculation engendered was may be better appreciated when we remember that the Bombay and the Madras Chambers of Commerce (both European and therefore least likely to do anything to hamper the Government) had found it incumbent on themselves to protest in very emphatic terms ?

The Bombay Chamber in a telegram to the Government dated 23rd February say :

“ The Bombay Chamber consider the present position of the import and export trade extremely unsatisfactory, and as directly attributable, in their opinion, to the exchange policy adopted from the Currency Committee’s recommendation, which has raised exchange to such a level as to undoubtedly encourage the transfer of capital and create a very unhealthy element of speculation.”

while the Madras Chamber wired on the 29th to Delhi as follows :

“ Madras Chamber, having carefully considered Exchange situation, agree generally with view held by Bombay Chamber that present position is one never contemplated by Currency Committee and that it is most undesirable that Indian sterling assets should be dissipated for benefit of gamblers in exchange.”

On the 3rd March the following further protest from the pen of Mr. Bomanji appeared in *The Times of India* :—

TO THE EDITOR OF THE TIMES OF INDIA.

Sir,—In spite of protests made by the Indian Merchants’ Chamber and Bureau as well as the agitation

in the papers, the Government of India, like the Bourbons, will never learn. They without the slightest hesitation keep on airily advertising fresh sales of Reverse Councils at ruinous rates, the effect of which is that, while the current rate of exchange quoted by the Banks is round about 2s. 7d., the Banks are allotted Reverse Councils at over 2s. 10d., thus giving them a clean profit of more than 3d. on their selling rate. According to the last announcement Government conferred enormous powers of discretion on the Deputy Controllers of Currency, and we know as far as Bombay is concerned how grossly these discretionary powers were abused by the local functionary. He has refused to sell Reverse Councils to Indian applicants and has allotted them to English, Japanese and American applicants. The result of it is that a small Indian importer or trader is forced to go to the Exchange Banks to cover his exchange at about 2s. 7d. the current rate, while the Banks who meet this demand are allowed to make the enormous profit of over 3d. thus transferring the profits on the exchange operations from the legitimate Indian trader to the English and foreign bankers. Government has therefore squandered away 15 lakhs 20 thousand rupees of public money which is the difference in exchange between 2s. 7d. and 2s. 10½d. This gift has been deliberately distributed to favoured foreign tenderers at the uncontrolled discretion of the Deputy Controller of Currency.

When Government give such large discretionary powers it is expected that the discretion should be used equitably between different tenderers, but the Deputy Controller of Currency in Bombay has abused his discretion and is not fit to be trusted with such large powers. The whole subject of allotments of Reverse Council Bills should be the subject of an enquiry by a Committee in which there ought to be an equal number of Indians and Europeans appointed. This undue preference to English and foreign interest at the expense of the Indian public should demand Government's immediate compliance with the request of the Indian Chamber for publication of the list of applicants

with the names of the successful allottees and the amounts allotted. Government cannot plead secrecy in this matter. This flagrant misappropriation of India's finances is carried on in spite of strong protests, and if the Government's hands are clean they can no longer withhold the publication of the information asked for by the Indian Chamber. The whole foundation of confidence between the Government of this country and the people is most rudely shaken, and if this agitation against it is groundless it is the duty of the Government for its own name and honour to make a statement disproving the allegations.

Before the war when England was prosperous there was a cry about the impoverishment of India by the exploitation of her resources and her trade by Britain, and this grievance is being daily aggravated by the manipulations of the exchange position of India at a time when Great Britain is known to be in financial distress. The drain of India's wealth in the prosperous days of Great Britain was carried on in a more or less veiled fashion, but this "organised loot" that is taking place at present has not even the redeeming feature of secrecy. It is a daylight robbery carried on in defiance of public opinion and with a view to help Great Britain in her present financial situation with regard to her American trade. Our public men in Congress lament over the increasing poverty of the millions of people and draw thrilling pictures of the starvation of millions, but they do not seem to pay the slightest attention to the process by which this system of "drain" is carried on under the benediction of the Currency Commission's Majority Report. In politics there may be a difference of opinion as to the degree of efficiency and fitness of the Indian people to enjoy responsible Government and there may be room for honest difference of opinion, but in the regions of finance and economics it can be mathematically proved in dealing with figures whether this legalised plunder is a matter of fact or not. There can be *no room* for difference of opinion. When we Indians supported by our Indian Chamber, openly challenge the Government policy and

criticise it in strong language it ought to be very easy to disprove the whole position taken up by Indians if they are wrong.

The unfairness to Indians in the matter of almost wholesale allotments to the Exchange Banks and European merchants, most of whom have their branches in Calcutta, Bombay and Madras and who have the advantage of applying to three different Controllers of Currency, thus altogether eliminating Indian applicants, is self-evident and the rank enormity of the injustice too patent to require any elucidation.

I notice that Government are asking for 15 crores of loan in the Budget. With these facts staring the people of India in the face, I am afraid Government will meet with a very poor response from the investing public of India after the experiences they have had. The Indian members of the Imperial Council must take prompt measures to put down questions and resolutions about the racial distinctions made by European officers of Government the effect of which has been prejudicial to the Indian trader. Let the Government look to the Exchange Banks and their foreign favourite allottees of Reverse Councils to subscribe to their new loan.

S. R. BOMANJI.

One of the arguments advanced by the Currency Committee in defence of the change to 2s. gold was that the rupee must be linked to something. A correspondent (Mr. H. A. W. Brent) put forward this defence once more and tried to justify the sales of Reverse Bills. He said (see *Times of India*, 8th March 1920) :—

" It is very easy for Mr. S. R. Bomanji or any one else for that matter to sit down and write letters to the Press decrying the sale of Reverse Councils and the present exchange conditions, but can he make any suggestions to remedy it? The people who are at present howling for the sale of Reverse Councils to be stopped fail to realise what would happen if such a thing took place. Our Currency would then be linked to nothing and the result would be the most appalling confusion."



This point was immediately taken up by Mr. Madon in the following letter (*Times of India*, 11th March 1920):—

TO THE EDITOR OF THE TIMES OF INDIA.

Sir,—In your issue of this morning your correspondent Mr. H. A. W. Brent blames Mr. S. R. Bomanji and others with lightly protesting against the Currency policy of the Government when we have nothing else to suggest, and then says:—

“ People are howling for Reverse Councils to be stopped, but they fail to realise what would happen if such a thing took place. Our currency would then be linked to nothing, and the result would be the most appalling confusion.”

I would advise Mr. Brent himself to refrain from lightly attacking Mr. Bomanji and others until he has studied the subject, which it is clear he has not. He evidently thinks the rupee was not linked to anything, and the Currency Committee has done this great thing for us now. Let me assure him the rupee has been linked to gold for many years, and the linking was recognised by the Government down to 1918, *i.e.*, four years after the Bank of England stopped cashing its Notes. Here are the proofs—

1. Coinage Act of 1906—Sec. 11—Gold coins of the Royal Mint of England or branches of the Royal Mint “ shall be legal tender in payment or on account at the rate of 15 rupees per one sovereign.” (Note that the word sovereign is used and denotes the coin not the £ note.)

2. Paper Currency Act (II of 1910)—Sec. 13—The officer in charge of circles of issue shall issue “ currency notes in exchange for gold coin which is not legal tender under the Indian Coinage Act, 1906, or for gold bullion at the rate of one rupee for 7·53344 grains troy of fine gold.”

3. The gold acquisition ordinance of 28th June, 1917,—By this Government took powers to “ acquire

all the import of gold, whether coin or bullion, in the case of the sovereign at Rs. 15 per £1 or the case of other coin or bullion at Re. 1 per 7.53344 grains of fine gold."

4. The Gold Coinage Ordinance of 1918 (Gold Mohur Ordinance) laid down that a gold mohur of 15-rupee piece was to be of the weight of 123.27447 grains of gold having  $\frac{11}{12}$ ths fine gold, and  $\frac{1}{12}$ th alloy. (This is exactly the same ratio as in the above three cases.)

Notwithstanding all these, it pleased the authorities to begot the issue, and to then claim that we had to consider whether the rupee should be linked to sterling or to gold, and then to inflict this great wrong on the producers of India by raising the ratio of linking from 7.5334 to 11.30016. It is this change that results in the "loot" Mr. Bomanji speaks of. The Secretary of State as the Agent of India took in not even gold at 7.5334 but sterling, and to-day, this Agent of India pays out in gold at a far higher rate. If anybody wants a helping hand it is not the Currency scheme but the producer of this country.

Is Mr. Brent aware of the true function of Reverse Bills? It seems not. Well, Reverse Bills are to-day equivalent to paying out Gold in London at the rate of 1 tola to every 16 rupees received here. This paying out can only be justified in the first instance if India has anything to pay to any one, *i.e.*, only if our balance of trade is against India.

If Mr. Brent is a merchant with an office in Bombay and in London, and his Manager makes payment to somebody knowing full well that nothing was owing to anyone, how would Mr. Brent characterise the action of his Manager? Here is the Secretary of State paying out gold on behalf of India knowing well enough that India does not owe a cent to-day, but is a creditor for immense sums.

Let us assume that Mr. Brent deals in gold, and his Bombay office is able to sell it at Rs. 20 a tola. His London Manager, knowing this full well, sells the gold

in his charge in the London office at Rs. 16 to the tola. What will Mr. Brent say to this Manager's action ?

What would be unpardonable in Mr. Brent's Manager is equally unpardonable in the Secretary of State as India's agent. He is more than an agent. He is a trustee of India's funds, and this makes his action even more reprehensible.

Mr. Brent takes up the Government talk of  $11\frac{3}{4}$  crores profit. If he at all understands how a country's trade is balanced, he ought to see that this talk is all moonshine. It does not drop from the heavens but comes out of somebody's pocket. The Currency Committee figure that the Home charges will average £25 million, and they too talk airily of profits. What happens is that India pays for £25 million of Home charges by balancing these off against £25 million of our exports. At the old rate the Government would have had to find Rs.  $37\frac{1}{2}$  crores. At the 2s. rate it will have to find only Rs. 25 crores, and calls this its profit ! We all know that our exports are mainly raw materials. The producer of these materials would have got for these same £25 millions Rs.  $37\frac{1}{2}$  crores at the old rate, and he will now get only Rs. 25 crores, *i.e.*, the Government's so-called profit will have come out of the pockets of India's producer.

As if the injustice of the change of ratio to 11.30 gold was not enough, the Government starts out to throw away our gold resources at bargain-counter rates. We protest because—

1. What we hold in London is not gold but sterling and we held these assets as sterling not because we liked it, but because the Bank of England refused to pay gold.

2. If England itself refuses to make gold payments to us, we must in our turn refuse to make gold payment to others even if payment was due to them.

3. But we do not owe a cent to-day and so we are not called upon to pay any gold to any one and so Reverse Bills, *i.e.*, paying out of gold is most unjustifiable.

4. England is doing its best to get back to gold payments. The Secretary of State should have this full well, and should know that by waiting a couple of years we can get cash (gold) from the Bank of England, and yet he is in a desperate hurry to convert our sterling into gold at to-day's ruinous rates. In whose interests is it, pray ?

I would ask Mr. Brent and others like him to study the question more closely, and to join with us in getting the Government to desist from its present policy. Defending it is no service either to the Government of this country or to the Empire.

B. F. MADAN.

Among other protests may be noted the following from the Southern India Skin and Hide Merchants' Association, an important body of Indian merchants on the Madras side. In a telegram to the Secretary of State and the Finance Member, Government of India, they say :

"Southern India Skin and Hide Merchants' Association, Madras, strongly protests against issue Reverse Councils as being most detrimental to Indian industry and production by keeping up exchange and causing financial stringency by draining the country of capital much needed for developing Indian industries. Request therefore their immediate stoppage. Otherwise rates should be open to competition without minimum fixed."

The scene next shifts to the Legislative Council at Delhi. The Hon'ble Sir Fazulbhoj Currimbhoj, one of the foremost millowners and industrialists of Western India, in his speech on the budget said :

"I am anxious to draw the particular attention of this council to the serious feeling existing among all classes of business men in Bombay with regard to the sale of Reverse Council Bills. Those of us who have given thought to the subject of Indian Currency and who have followed carefully the various steps by which the Government have changed their policy from time to time are distressed at the recent extraordinary fluctuations

in the exchange which people in Bombay believe to have been due very largely to the action of the Government. The ratio of Rs. 15 to one sovereign had been maintained in practice to the advantage of this country for over twenty years maintained during the war at a great sacrifice of public funds and a serious loss to the business community after the armistice. Just when this country had the largest claim for reward and generous treatment at the hands of the United Kingdom, and the Allies for whom India underwent to the full extent all sacrifice that was possible for her. We find that exchange has been raised successfully until it has reached this height. The Government have sacrificed the stability of exchange and notwithstanding the great need for establishing it, the recommendations of the majority of the Indian Currency Committee have failed to give any reliable remedy in this direction. The American cross-rate on which reliance was put has since gone down from 385 to 340, hence nothing but disaster can come from that report."

"I am one of those who believe that the greatest benefit conferred by British rule on this country is the investment by Englishmen of their capital here in enterprises which Indians are unable to undertake on account of lack of funds or ignorance. In this light I cannot but help feeling that the greatest disservice has been done by the Government to this country in preventing this flow of capital and in encouraging the withdrawal of these investments. Capital which came to this country with the expectation of a steady 6 to 10 per cent. return is earning now by mere withdrawal over 100 per cent. in the sales through inflated value and more than 100 per cent. in exchange."

"Apart from the withdrawal of this capital it is the turning of the stream which must cause serious concern to all business men. I for one do not expect that for some years to come capital would flow to this country for investment. The sale of Reverse Council Bills appears to have been adopted by the Government of India in pursuance of the recommendation of the Majority Report

of the Indian Currency Committee. That Committee was very defective in its constitution and it took very long to give its decision. In the meanwhile Government went on raising the exchange ratio. Indian publicists and a few Englishmen do not agree that the events during the period the Committee was sitting justified the Government successively raising the exchange. There were other remedies which I am sorry to say were not adopted. One such remedy was the mobilisation of the Indian sterling debt and its purchase by the people of this country. At the time the report of the Committee was published the exchange was 2s. 4d. but the Government suddenly raised it to 2s. 7d., 2s. 9d. and 2s. 11d., in the course of a few days, when no such action was at all necessary. The situation has radically changed since the Committee's report. Even if one allows for the sake of argument that the raising to 2s. 11d. was unavoidable, there could be no object in Government wanting to maintain it at that high level and therefore there could be no object in the sale of Reverse Bills. I do not apprehend any serious consequences could have happened had Government not offered for sale Reverse Bills. When they did, they threw the market by their action into uncertainty and invited those speculative elements which are always drawn where quick and easy money is made. The speculative demand created by Government action is having disastrous consequences and even now the continuance of that policy is producing serious evils and serious obstacles in every form of legitimate trade and industry. . . . "In all earnestness I ask Government whether they are going to link the fortunes of this country in the matter of currency and exchange with the changes that may take place in the exchange between England and the United States—changes which may have nothing to do with India which may have nothing to do with England which may arise from political causes, strikes or any other reasons absolutely remote from the life and activity of this country. Must India perpetually play the second fiddle and be tossed about by every change that takes place in the

American-cross rate? Are the trade and industry of this country not to count in the decisions on currency and exchange question? I do not understand the particular point of fixing 2s. in gold for the rupee. It ensures no stability and it is unduly high. If one were to judge the result by the evil consequences which have come about in the attempt to fix the exchange at this artificial point the future seems very dark. For we can secure neither stability in exchange nor favourable conditions for trade and industry. All legitimate expectation of further investments of British capital in this country will be at an end. How can we recommend persistence in this policy? Let us, I submit, seek the re-establishment of Indian exchange at the old rate of 1s. 4d. sterling. I do not apprehend any serious consequences provided the attempt is made steadily and by degrees, but I submit to Government in all humility what the object of the Indian policy should be, that we cannot have a general advantage or stability at any other rate. If that were the objective, the sale of reverse bills at such high rate as 2s. 11d. would certainly be disadvantageous, even with the change in the exchange ratio.

“ The sale of Reverse Bills is wrong, it does not even secure legitimate security. From day to day the only anxiety of Government should be to prevent exchange going below the rate fixed. Various explanations have been forthcoming as to the necessity of selling these Reverse Bills. One object is the accommodation of trade. I am not raising any conventional protest against Government interference with trade, when I say that trade would take care of itself if only Government left it free. What about the serious losses arising from the withdrawal of funds which were remitted from England at 1s. 4d. and are being called back at an exchange of double of the old rate. The advantage in the reduction of home charges is distant and may be lost in future, but nothing can wipe out the public feeling from this simple process which the man in the street can understand very clearly. He sees the present loss which looks large in his eyes. I ask leave of this council to refer to the serious exasperation

in commercial circles in Bombay which demand re-consideration of the whole problem and an immediate stoppage of the sale of Reverse Bills. Even if Government be not altogether convinced of the reasonableness of some of the demand of the Indian public it would be, I submit, high statesmanship to respect this opinion as far as possible and not to disregard in a matter of vital importance to the people nor to overlook the discontent which has followed and is likely to grow in addition to what I have already said with regard to the policy of selling Reverse Council Bills and of the acceptance of the Currency Committee's report."

The Hon'ble Mr. Sarma also referred to the sales of Reverse Councils in the following words :—

"The Government were losing unnecessarily by the sale of Reverse Councils and there was ample justification for the unrest among Indians. Reverse Councils should be sold only if it was absolutely necessary to adjust the trade balance against India and to weaken the exchange in particular times of severe stringency. During 1919-20, taking every month they found large excess of exports over imports so that in no period was there a trade balance against India and there was nothing to show that the trade adjustment of the country necessitated the shifting of funds from this country to England. The forced sale of securities was therefore extremely undesirable because India had to bear the loss. To allow the export of money from India in that artificial way when they wanted every pie they could to increase their industry was absolutely unjustifiable."

The Hon'ble Mr. Hailey in replying to these criticisms admitted that

"the sale of Reverse Councils means that we are receiving in India only about Rs. 725 for £100 in London though this £100 cost us originally Rs. 1,500 to deposit there" but he explained that the Government aimed at a ratio enabling us to buy silver and save us from the nightmare of inconvertibility, that they hoped to combat the high level



of prices from which so many of India's population were suffering and that there was a third consideration, *viz.*, the effect which the gains from exchange were to have on their ability to relieve provincial Governments of their contributions, that Sir Fazulbhoj's proposal that they should allow exchange to fall by stages to 1s. 4d. would be little short of disastrous in this respect and that they should either have to take larger contributions from the provinces or should have immediately to introduce fresh taxation to finance the many schemes of improvement which the reformed Councils would desire to introduce. Then he referred to the argument about loss to the producer and said :

" I know that it has been represented that what we call gain is not a real gain, because what appears to be a saving to Government really comes out of the pockets of the producer. The argument is stated as follows : Money sent Home is equivalent to export sent home. If Government has to send Home £25 millions at Rs. 15 to the pound, it has to send 37 and a half crores of rupees, and the producer gets thirty-seven and a half crores for his produce. By making the rate Rs. 10 to the pound Government will, of course, send only 25 crores of rupees and the producer will lose twelve and a half crores of rupees. This is true as far as it goes but the argument goes only part of the way. The same argument was, of course, applied when we raised the rupee to 1s. 4d., and I do not think that any one would nowadays claim that the producer has suffered severely in the last twenty years. You call it an indirect tax, but you cannot deny that it is in many cases, perhaps almost entirely in the case of our monopoly exports, largely paid by the foreign consumer. "

Then he went on to defend Reverse Bills as being really alternatives to the export of gold and claimed that a large part of the applications was undoubtedly genuine trade demand. He argued further that the rupee must be linked to something, and if so it must be at some definite rate and this necessarily involved their being prepared to see Reverse Bills in order to

maintain that rate. Then referring to the complaints of heavy loss to the country he said :

“ It is not the sale of Reverse Councils which produces that loss. The loss is there all the time potentially, and sooner or later it must become a reality. Take for example the sterling securities in the paper currency reserve. Sooner or later, those reserves must be bought back to India, if not by Reverse Councils then in the shape of specie remittances of silver or gold, and as soon as the retransfer takes place that loss immediately becomes apparent. There is no avoiding the loss, and the stoppage of Reverse Councils would not make it any the less real.”

*The Times of India* in its leader of the 13th March while accepting the defence of the Government as put forward by the Finance Member said :

“ We have no hesitation whatsoever in saying that no competent body of financiers in the world would have dared to enforce the recommendations of the Currency Commission in these circumstances. No responsible financial authority would have dared to promulgate a policy which aimed at raising the rupee exchange from a weak two shillings and four pence to a fixed two shillings and eleven pence at a bound ; especially when the price of silver was such that the Government could not have bought silver for rupees if they had been demanded. We say that any really competent and responsible body would have decided without hesitation that the vitally changed circumstances of the day made the immediate enforcement of the Currency Commission's recommendations absolutely undesirable. It would, if it were necessary immediately to publish the Report, have said that in view of the decline in American cross rate, the immediate linking of the rupee to gold at ten to one was impracticable ; that the official establishment of the new standard would be delayed until the conditions were changed ; but the Government would seek to prevent further violent fluctuations in exchange by offering a very

limited amount of Reverse Councils at or about the rate then prevailing in the market. In that case we should have been spared the violent disturbance of the market which has occurred; the disgraceful speculation and dodges through which people have profited at the expense of the community; and the ill-feeling and rancour which have been aroused. . . . Any tyro in currency and exchange could have informed the India Office that the unprecedented attempt to raise the exchange by seven pence at one stage was bound to produce an uncertainty paralysing the export trade, especially in view of the delay in the cables; produce speculation of the most violent order; and with the knowledge that it could not be permanently maintained at the rate, there was bound to spring up a demoralising demand for remittance to London, both in anticipation of trade demands and in order to transfer capital in these tempting conditions. Our immediate quarrel is not with the Currency Committee's Report although we have strong reason for regarding the two shilling rate as excessive as a permanent factor. Our quarrel is with those who attempted to force this new rate through in circumstances differing so materially from those when recommended. That is the real issue; it was not brought out in the debate in the Legislative Council because so few understood it. Nor did the Finance Member attempt to meet, because we cannot believe that either Mr. Hailey or his colleagues believes in the expedients which have been forced on the Government of India by the secret conclave which operates in Whitehall."

While these discussions were going on in India and while the Indian Government and the Secretary of State wanted to make out that the producer of this country would not suffer by the raising of the value of the rupee, the problem was viewed very differently in British East Africa. A deputation under Lord Cranworth waited upon the Under Secretary of the Colonies Lieut.-Col. Amery and explained that costs of production had been calculated on the basis of Rs. 15 to the pound and that the present position (putting up the

rupee to 2-shilling sterling) meant the ruin of the producer, that the producers were subjected to a tax of 100 per cent. owing to the high value of the rupee and even after stabilisation at 2 shillings the increased charges would be 50 per cent. The East African producers including the soldier settlers would be completely ruined unless the rupee was restored to its ratio of 15 to the pound. Not only did the producers of East Africa thus protest against the raising of the value of the rupee, but the Colonial Under Secretary seemed to agree with them because in reply to a question in the House of Commons by Mr. T. J. Bennett he

admitted that the fixing of the East African rupee on a sterling basis at eventually two shillings inflicted hardship on the Indians in East Africa, but they would gain correspondingly in so far as they drew new capital from India or were producers or traders for export. To have allowed the East African rupee to follow the Indian rupee to the present price would have involved far greater hardship to all producers in East Africa.

It is clear that the Colonial Office was of the opinion that the change was harmful to the producers of the country.

An important member of the above East African deputation—Major E. S. Grogan—in a letter to the *London Times* of 13th February 1920 strongly condemned the change in the value of the rupee. It shows such a clear grasp of the fundamentals of the problem that it is well worth quoting here.

“The Babington Smith Report on Indian Exchange and Currency (1920) will probably have a more profound and far-reaching effect upon the equilibrium of the British Empire than any other single document presented to Parliament within the memory of living man.

The substantive and incidentally infamous and utterly illogical proposal of the Majority Report has already been translated into action by the Secretary of State with the grotesque modification that “as a provisional measure during the transitional period” Rs. 10 are to denote one sovereign in external debts and two-thirds of a sovereign in internal debts. Thus the first decision has been made in the general Imperial policy to be adopted in res-

pect of the most vital of the war's residual problems—the problem of the oversea exchanges. The precedent established by this action in connexion with so vast a factor in world economics as the Empire of India must influence profoundly all the long sequence of decisions which have yet to be made in the other administrative units of the British Empire, as and when their respective currencies escape from controlled subordination to the Imperial unit of value, the pound sterling.

The statutory unit of value, as the nucleus of all monetary contracts, and the currency machinery, whereby such contracts may be in practice completed in accordance with the intention of the law, are deliberately established by legislation and complementary administrative action on the part of each administrative unit. The law determining money is to the individual's property rights what the Habeas Corpus Act is to the rights of the individual's person. It is the fundamental law of a stable State. Only the safety of the State itself can justify its modification. Even then the only justifiable modification is a change in the statutory unit of value, leaving the relation between debtor and creditor constant in terms of the statutory unit of value, as has been effected in the United Kingdom by the change from the "free" sovereign to the Bradbury.

#### CHANGE OF STANDARD.

There is probably no other example in history of a change in the law whereby the statutory unit of value is retained and the relation between debtor and creditor is distorted 50 per cent. in favour of the creditor. This is the essential principle of this amazing Report. As Mr. Dalal, the Indian member of the Commission, writes in his admirable Minority Report :—

It seems to me to be impossible to exaggerate the importance of the legal standard for money payments. This standard should be and usually is regarded as less open to repeal or modification than perhaps any other Legislative Act.

Truly said ; for the statutory unit of value is the skeleton and its subordinate currency is the muscular system of the body economic, and violent distortion of their evolved relationships induces economic paralysis. The principle and intention of the Indian Monetary Law were unequivocally defined in the *resume* of the history of the Indian currency system tabulated by the Chamberlain Commission of 1914, [Cd. 7236, pp. 8 and 9], from which the following are the relevant extracts :—

(1) Para. 55 (quotation from the Fowler Committee Report [C. 9390 of 1899]) :—Under an effective gold standard rupees would be token coins, subsidiary to the sovereign. But existing conditions 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.

(2) It will be observed that " the effective establishment of a gold standard " was the paramount object which the Committee of 1898 set before the Indian authorities. These recommendations (*i.e.*, of the Fowler Committee) were accepted in their entirety by the Indian authorities.

(3) The Indian Act No. XXVI of 1899, making the sovereign and half sovereign legal tender throughout India at 15 rupees to the pound, gave effect to the first recommendation of the Committee. 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.

From the above it is unquestionable that the law of India established the sovereign as the statutory unit of value and the rupee as a subordinate token coin intended to denote in all monetary contracts a value of one-fifteenth of a sovereign. Following ancient custom, all money amounts have continued to be expressed in terms of rupees ; but all such amounts expressed in rupees could only be interpreted subsequently to the law of 1899, as denoting pound values—in the same sense that a debt in England expressed as 40s. is interpreted to denote £ 2 and not £ 2 10s. if and when (as now) the bullion value of the shilling is 1s. 3d. sterling.

## RUPEE DIFFICULTIES.

The special difficulties that beset the Indian Government when the metallic value of the rupee climbed above its symbolic value are obvious to anyone conversant with the intense conservatism and suspicions of the East. The fact remains, however, that the paramount duty of the Indian Government was to maintain its currency machine in tune with the Monetary Law, in order to protect the Indian people from distortion of all their financial adjustments and from the immeasurable suffering that inflation of the unit of value necessarily inflicts on the struggling debtor class. The Indian Government's total failure in this primary duty will mature as the most desolating of its many failures during the last five years. The hesitations, evasions, compromises, timidities, tentative advances, inconsequential withdrawals, smug satisfactions and complete lack of any defined and continuing policy based on recognition of the vital principle at stake, which the war has taught us to associate with entrenched bureaucracy, are well brought out in the evidence of the Indian bureaucrats. This abject failure to perform one of the primary functions of Government is treated with a bucket of whitewash from the unofficial members of the Commission, who in paragraph 32 "desire to place on record our recognition of the skill, courage, and resource which the Government of India and the authorities at the India Office have shown," etc.

The Indian currency system was automatic in the case of a rise in silver. The obvious solution of the problem, therefore, was to "open all the taps" and leave India free to export silver to buy gold until the par of £1 to Rs. 15 was restored, if the principle of maintaining the sovereign as the unit of value was to prevail. The restoration of the sovereign as the unit of value in Indian currency practice is the one intelligible purpose of the Report, but this would happen automatically by the release of all controls. To achieve this purpose there is no need for such ludicrous legislative antics as doubling all official salaries in terms of sterling increasing all debts' debts 50 per cent. in terms o

gold, and making a present of 50,000,000 half sovereigns to the holders of the 50,000,000 sovereigns in circulation, which are the practical steps proposed by the 10 wise men of London Town, signatories of the Majority Report. The period of reconstruction after Armageddon, when production, especially of food and raw material requires every stimulus that the State can apply, is surely a strange moment to select for increasing debtors' debts and spraying gold holders with an adventitious golden shower. As policy it is antithetical to the policy adopted by all the war-shaken nations, which are deflating their units of value to relieve production from the deadening burden of debt.

From the Imperial point of view, the principle of re-establishing the sovereign unit of value rather than the pound sterling unit of value, quite apart from the monstrous contortions by which it is to be achieved is wrong. It was well said by Professor Marshall (Q. II, 815) in his evidence before the Fowler Committee, that the unification of the standards of values of two countries was equivalent to the unification of their railway gauges.

#### INDIA AND THE EMPIRE.

The decision, therefore, in favour of gold as against sterling means "line clear" between India, Japan, and the United States, and a "breaking bulk" in all financial and commercial traffic between India and the rest of the Empire. This disastrous decision, if maintained, destroys all prospect of organised control of the international exchanges, to which the essential prelude is consolidation of the Empire's currency systems, achieving Imperial purity of exchange by the establishment of one Imperial statutory unit of value dominating the established currency machines of all the Empire's component States. For example, the rupee zone of Africa, comprising British East Africa, Uganda, and the Tanganyika Territory forms a pathetic little tail to the Indian currency comet. Although the richest part of Africa, as a potential and active producer of foods and raw materials desperately needed by a starving world, this rupee zone has already been wither-



ed up by the blast of the great Indian failure. It is to be feared that this ill-omened Report will serve as a precedent, and that some timid compromise on the part of the Colonial Office will fix beyond hope of early recovery the locomotor ataxy of production that the failure to control the local currency has already induced. Ruin of the recently invited soldier settler on the threshold of his new career would be the appropriate crowning triumph of the Report.

There are only six possible theories whereby the Report can be explained in terms of reason—

- (1) A plot to whitewash the Indian Government.
- (2) Political influence leading to a premeditated policy of assisting Manchester and Dundee exports by imposing a burden equivalent to 100 per cent. sterling excise on their competitors in India.
- (3) Financial influence leading to a premeditated policy of sweeping every Indian debtor into the maw of the British Banking Trust.
- (4) Subservience to some factor desperately interested in the maintenance of the high value of silver.
- (5) An organized attempt by the Indian bureaucracy surreptitiously to multiply its salaries and pensions.
- (6) All-round general nescience on the part of all the responsible parties.

All these theories provide first-class incendiary matter for use by the Bengali agitator among the millions of squeezed peasants, "locked out" mill operatives, and bankrupt traders—the inevitable byproducts of this scheme of crediting half a sovereign to him that hath a sovereign and of debiting half a sovereign to him that hath nothing but a sovereign debt.

The appeasement of invading Bolshevism will not be assisted when it transpires that the sole Indian member of the Commission alone was right."

The defence put forward by the Finance Member elicited the following criticism from Mr. Madon under date 16th March 1920 :—

TO THE EDITOR OF THE TIMES OF INDIA.

At the Council meeting on the 10th instant, Mr. Hailey has been good enough to give a lengthy explanation of the Government side of the case for the currency policy and for the Reverse Councils. I can congratulate him on the frankness he has shown in stating some of the issues, as up to now official and non-official apologists of the policy of the Government have simply tried to begot the main issues. It will not be possible in the space of the present letter to go into all points made by the Finance Member, but I will to-day take up the two principal ones on which he has been good enough to make very important admissions.

First, there is the so-called profit on Exchange. I have repeatedly shown on previous occasions that this talk of profit was entirely misleading, and that it did not drop from the heavens, but really came out of the pockets of the producer of this country. Mr. Hailey now admits that the producer will lose 12½ crores of rupees. He of course tries to belittle the importance of this admission by talking of monopoly exports of India, and the producer not being the sufferer, but the foreign consumer. When next time Mr. Hailey is inclined to be frank, I will ask him to specifically mention these monopoly exports, show that they have all defied the rise in exchange and been able to attain the same general rise in prices as other commodities, because then alone can the handicap of exchange have been passed on to the foreign buyer. The only monopoly export that I know of is jute, and I invite the Finance Member's attention to the fact that in 1913-14 jute was round Rs. 80, and it is to-day still round Rs. 75 or less. In other words, in spite of all the grand talk of the rise in prices in India, the jute cultivator, this great monopolist, is worse off to-day than he was in 1913-14. In fact if the general level of prices is considered he is far worse off than in 1913-14 because Rs. 75 will only buy as much to-day as Rs. 40 bought in 1913-14. Three years ago owing to prohibition of exports to various countries this monopolist got only Rs. 30-35 for his jute, and as it did not give sufficient income even for the barest living, let alone other necessities of life,

we then heard of Bengali women committing suicide owing to inability to get a rag to cover their nakedness with. If Government had any concern for the poorest part of their subjects, this cultivating class, they would now strain every nerve to increase the income of this class, and put them in a position to rehabilitate themselves before some other serious crises in the jute trade again jeopardises their position.

However, it is some satisfaction to me that this admission that the producer pays 12½ crores is made.

Government through Mr. Hailey defend it in a most curious way. We know how unfortunate was their defence of sales of Reverse Bills. It was to help war-profiteers to remit their profits Home at rates that they had never dreamt of in their lives, rates that nobody had seen in far more than a generation. We have another most unfortunate defence, although I congratulate Mr. Hailey on the courage he has shown in openly making such a defence. It is that if the Government are not allowed to take these 12½ crores from the producer,

“we should either have to take larger contributions from the provinces, or we should have immediately to introduce fresh taxation to finance the many schemes of improvement which the reformed councils will desire to introduce.”

This is straight enough. Allow us to take it from the cultivator or give us fresh further revenues. I am afraid Mr. Hailey has not quite appreciated the significance of this argument. It amounts in simple language to this. If I have a salary of Rs. 100 and prices rise so that I am unable to meet expenditure unless I get Rs. 150, and if my employer is so obdurate as to refuse to give me the Rs. 50 increase I am according to Mr. Hailey justified in emptying the pockets of the first helpless wight I come across. If the proprietors of this great concern (India) refuse to allow its servant (the Government) additional remuneration (revenues) this servant (the Government) thinks itself justified in putting its hand into the pockets of those of the proprietors (the people of this country) that are likely to show the least resistance, and accordingly they

start to empty the pockets of these poor people (the cultivating classes).

I am afraid Mr. Hailey will strongly resent this simile, but I invite him to show me where it is wrong. I am obliged to picture the Government's action in its true nakedness, as otherwise it is impossible to convey to them the greatness of the wrong they are doing to the toiling millions of this country.

I shall now come to another phase of this enormity. If it was only the Government that was thus emptying the pockets of the cultivators it would be bad enough, but when it actually suffers other people to do it too, the thing becomes what Mr. Bomanji would call "loot." Mr. Hailey ought to be aware that Home charges of £25 millions are not the only item that has to be balanced off by our exports. There are the savings of the foreign community, the profits of the planting community, the railways, the various sterling companies, the insurance companies, the steamer companies, etc., etc., that have also to be so balanced off. I shall be glad if Mr. Hailey will get an estimate made of what these are at present, as it is only the Government that can have the most complete data on the subject. In the meantime, for the sake of argument, I will call it £10 million. Well Mr. Hailey agrees that on £25 millions of the Home charges, the Government is getting 12½ crores of extra money out of the pockets of the producer. On the same basis, on the other services, railways, steamers, insurance, etc., etc., the people who run them and remit these £10 million Home, make an extra 5 crores out of the pockets of the same producer. What right has the Government to put these 5 crores in the pockets of these other people? Why do they do it? It is simply because they themselves have to use the machinery of the gold exchange system to empty the pockets of the producer without the poor man knowing what is being done, and they have perforce to allow other people to benefit by the same machinery.

I now put it straight to Mr. Hailey. Why not honestly come forward and take this additional 12½ crores in

honest open taxation, and thus prevent the further 5 crores going into the pockets of these other people who have not the least right to them ?

I would also draw the attention of the leaders of the people, and of our representatives in Council to what I say above, and I would ask them to see that the most voiceless of the millions of India are not allowed to be exploited as they now are.

As this letter is already long, I shall with your permission take up the other points in my next.

B. F. MADON.

This was continued in a second letter which we reproduce here :—

TO THE EDITOR OF THE TIMES OF INDIA.

Sir,—In my previous letter commenting on the Government's defence through Mr. Hailey of their present currency policy, I have shown that

not only do the Government take 12½ crores from the pockets of the producer themselves, but that they help English and other merchants, steamer, insurance, and other companies, etc., etc., to take a further 5 crores from this same producer.

There is a third party that the action of Government also helps to empty the pockets of India's producer. It is our wealthy and well-off classes. If the foreign imports of India are scanned, it will be seen that luxury articles like silks and motor-cars, figure up to several million pounds. I hope to take up this question in more detail on another occasion but will here only point out that by the present procedure Government is

- (a) not only taking 12½ crores itself,
- (b) not only helping foreign companies working in India to take a further 5 crores,
- (c) but is helping the moneyed classes of this country to take another few crores from the pockets of the producer of this country.

I shall now come to Mr. Hailey's defence of Reverse Councils. Mr. Hailey is good enough to tell us that

Reverse Councils are an alternative to the export of gold.

This is quite true but the definition is incomplete. Let me complete it for your readers. Exports of gold are the natural way of adjusting trade in all gold standard countries, but these countries simply hand the gold out of the currency office on a demand for export and have nothing further to do with it. The party withdrawing the gold looks after the shipping, and may ship it or retain it in the country as it pleases. This is how the thing operates in England in normal times, and in America to-day.

In the Indian system, the Government has taken up further duties that have no necessary connection with the duties of the Currency department as such.

As holders of the currency chest, the Government undertake to give gold for rupees at the fixed rate. This is the function that is the alternative to the export of gold in other countries.

The Government here undertake a further duty, *viz.*, to take the gold to its destination. This is the function of the shipping agent in all gold standard countries, and the Government as such has nothing to do with it.

Now, when we challenge the correctness of the sale of Reverse Bills, the Government talk of their being a natural demand and of the Government's duty to supply gold when called for. I say let us apply the only correct test. Let the Government stick to its legitimate function as the holder of the currency chest, and decline for the time being to do the work of the shipping agent. Let them give gold here in this country to all allottees of Reverse Bills at the rate of 11.30 grains that they wish to force upon us, and let the allottees do the shipping of it. Mr. Hailey, in trying to reply to Mr. Sarma's argument that the demand for Reverse Bills was not genuine, has insisted that a large part of the demand is undoubtedly genuine trade demand. (The argument about having to help war-profiteers seems now to have been dropped but let that pass). What I say is if the Government is convinced that there is a genuine trade demand

for export of gold, let it be put to the test. Let it give the gold here and leave these "genuine" traders to export it. I am convinced that the truth will at once become apparent that the demand was not to ship gold, but to get sterling at bargain prices to speculate in.

Let Mr. Hailey reflect. None should be better aware than he that England is straining every nerve to right its exchange with America. The probability is therefore quite strong of its reverting to specie payments within a couple of years. This means that those who send the rupee Home at 34*d.* each can get it remitted back at 24*d.* a clear profit of 33 per cent. on capital, plus 6 per cent. on the money while lying at Home, with the absolute certainty that there cannot be a loss, provided one waited long enough. It is an ideal Monte Carlo with the difference that in Monte Carlo, it is the Banque, that ultimately stands to win, and the gamblers to lose if they kept at the game long enough. Here, it is the reverse. The gamblers are sure to win and the bank to lose. In this case the Banque is the Government and the gamble the New York London Exchange with all the ultimate chances in favour of the gamblers. The situation, mainly owing to England's refusal to give gold, is so abnormal that what Mr. Hailey would call facility for the exchange of the rupee into external currency resolves itself into a facility to gamble in New York London Exchange and such facility need not and should not be given.

Mr. Hailey asks for an alternative. My answer would be as follows, subject always to the reserve that what I say here should not be construed into meaning that I subscribe to the change of our standard unit. I think such change altogether wrong, but as the Government is apparently determined about it, I think there are ways of doing it that will save the Government from unnecessary opprobrium and India from an enormous yet avoidable loss, and at the same time achieve the object the Government have in view.

First, let us remember that the basis now adopted is impracticable to work so long as England declines to pay its creditors in gold. The rate from day to day will be

2s. 10d. or 2s. 8s. or 2s. 4d. according to the New York rate which is quite beyond the control of the Indian Government. Then why persist in a course which only results in creating a market here for gambling in the New York rate? Let the Government say that although they have fixed upon 2s. gold the abnormal circumstances do not permit of selling Reverse Bills on this basis without creating other and far greater evils. They have a precedent in their own past policy. Although it was incumbent upon them to issue rupees at 16d. the Secretary of State said he could not go on doing it at a loss. Today he can equally well say that he is not going to sell sterling at a loss (for, that is what Reverse Bills mean). He can declare that the Currency Committee has revalued the sterling reserves at 2s. and that figure already represents an enormous loss to India, and that he cannot think of increasing it further, but that he will be prepared to sell Reverse Bills at 2s. Mr. Hailey says: "If Reverse Bills are withdrawn altogether and if exchange be left unsupported, etc.," but those that oppose the present methods of the Government do not ask for this. They only say "support exchange as much as you like when it shows signs of breaking below the 2s. now adopted by Government, because then Exchange will have really weakened, and justified sales *at the level at which such weakness develops.*" As the Government's ultimate object is to establish the 2s. rate, there should be no object in putting the rate *far higher up* by the use of Reverse Bills.

Government evidently want to force the rate up in the belief that this way the new system will get established much quicker. Let me point out that a forced growth is never desirable nor permanent. Let them be patient and let them rely on the very powerful instrument of Council Bills that they have. Let them wait till the exports absorb such import remittances as may be available. It will not take very long in view of the fact that already a good deal of the remittance is absorbed by the Government, and the further fact that we are in the height of the season, and there is an enormous amount



of produce waiting to go out. I feel sure that ere long, there will again arise a demand for Councils and it will make the rate both strong and effective, and that without the enormous unnecessary loss from week to week that is now made on Reverse Bills.

I may congratulate the Government on the decision they have come to to discontinue discrimination between one applicant and another. It was a serious mistake, and I am sure the public will welcome the change again to sounder methods.

Before closing, I wish to say a word about linking our money to gold. When the Finance Member has been good enough to be so candid in other matters under discussion it is to be regretted that he should still say:—  
 “The rupee must be linked to something, and if so, it must be at some definite rate, and this necessarily involves that we must sometimes be prepared to sell Reverse Councils in order to maintain that rate.”

I have already said enough about the wisdom or the necessity of selling Reverse Bills at anything over 2s. I will now say a word about the linking. I would point out that this linking is not new. The rupee was already linked, and that not to sterling but to gold, although in those days sterling happened to be the same as gold. Witness the

Coinage Act of 1906, section 11,  
 Paper Currency Act (II of 1910), section 13,  
 Gold Acquisition Ordinance of 28th June 1917,  
 Gold Coinage Ordinance (Gold Mohurs) of 1918,  
 in each of which either the sovereign (*i.e.*, gold coin) is referred to in relation to the rupee, or the rupee has been specifically mentioned as the equivalent of so many grains of gold.

B. F. MADON.

Notwithstanding the various expedients tried by the Government to check speculative applications they continued to come in enormous amount. The authorities have not the sense to see that so long as there were enormous profits to be pocketed speculators would not be kept back,

and so a further expedient of calling for 50 per cent. of the amount of *application* was tried. What this meant, in effect, is seen in the following letter from Mr. Madon:—

TO THE EDITOR OF THE TIMES OF INDIA.

Sir,—It is notified in the papers this morning that applicants for Reverse Bills should henceforth send in a margin of 50 per cent. of the amount applied for instead of 20 per cent. May I ask why? Is it not a further confession on the part of the Government that their whole Reverse Bills policy is wrong and that speculators are still after the "loot" in spite of all the Government can do to prevent them benefiting by the sales?

50 per cent. looks innocent enough, but let us analyse the situation. No one gets any allotment unless the amount falling to his share amounts to £5,000. As £153 million were applied for at the last sales against the £2 million available any one that wanted to get even £5,000 should have applied for £382,500. At 20 per cent. he would have had to put up a margin of £76,500. When one bears in mind what margins mean, it is at once seen how ridiculous the position has become. To put up a margin of 15 times the amount expected to be allotted is on the face of it perfectly ridiculous. However, the Government rates are, notwithstanding all that the Finance Member may say to the contrary, so very tempting, that a great many people have been able to somehow manage to put up even this stupendous margin. The Government now tries to stop some of these people by increasing the margin required to the even more absurd figure of 50 per cent. This means that the man who wants to remit £5,000 at the Government rate must apply for £382,500 and put up a margin of £190,000. Is this not an absolute confession of failure? Is this not an admission that the Government's policy is exploited by speculators for their own gain? How long does the Government want to persist in this mistaken policy? Is it again a question of prestige? If so, let me assure

the Government that their prestige is not increased in the eyes of the people of this country by their allowing a few millionaires to exploit them. They will be wiser to admit that a mistake had been made, and to discontinue these bills. I am afraid the authorities at Delhi have very little to say in the matter and are only carrying out the behests of some one at the India Office. If so, let them say so, so that we may at least know where the blame should lie. The Hon. Mr. Hailey invoked the names of his predecessors and told us they had only one end in view, *viz.*, to serve India. Does Mr. Hailey still seriously believe after the necessity for absurd margin restrictions like the above that by persisting in the Reverse Bills policy he is serving India ?

The worst about these restrictions is that they are deliberately intended to, and can keep out, only the small man, however *bona fide* his requirements. They cannot keep out the multi-millionaires and the big banks. The 50 per cent. margin will simply mean that the Reverse Bills are made a close preserve for the millionaire speculator to the exclusion of the smaller man who can only boast of lacs. Nothing can be a stronger condemnation of the policy of Government than these measures they have to resort to.

They feel that their rate is wrong, and tends to profiteering. They are so alive to it that they have taken steps that the commission on postal orders shall be Re. 1 per every £1. This is intended to make remittances through the Post Office, unprofitable, as the rate after allowance for commission works out at lower than the rate quoted by Exchange Banks. If the Government's rate is the true rate, why does it thus hedge it in at the post office. Is it not another admission that the Government rate only tends to speculation ? It should be the duty of Governments to protect the poor against exploitation by the rich, but here our Government does everything to put money into the pockets of the rich and actually debar the small man. And who are these rich people ? Exchange bankers and a few speculative

millionaires. Does Mr. Hailey still feel that he is doing the right thing to India and India's people ?

The situation has now grown into a perfect scandal and requires the strongest protests from all our public men and public bodies.

B. F. MADON.

23rd March, 1920.

In a further letter he answers certain criticism of his previous writings by the *Calcutta Statesman* which is worth quoting here as it answers many of the arguments advanced in defence of the Government's policy:—

TO THE EDITOR OF THE TIMES OF INDIA.

Sir,—The *Statesman* of Calcutta has tried to answer my criticism of the present currency policy of the Government and has argued that—

1. What I advocate is the penalising of the millions of India for the sake of a small minority engaged in the export trade, who are an infinitesimal fraction of the population.

2. That I ignore the fact that one of the main objects that guided the Currency Committee was to prevent a disastrous rise in prices in this country.

3. That the poorer classes and those dependent on fixed incomes had been hard hit.

Coming to the first point, may I point out that it is not correct on the part of my opponents to say that the export trade is an infinitesimal fraction of the population and that I am fighting for this infinitesimal fraction and against the millions of India. The export merchants are, it is true, a very small body, but they are not the export trade; without meaning any offence they might be compared to a species of parasites on the real owner of and producer of our exports. This producer produces the exported commodities, and the merchant and banker only help to distribute it. Thus when the producer has the crops ready these parasites come in to handle them and nibble off little bits of the produce

in the shape of banking and exporting commissions. They may be necessary parasites, but they are parasites all the same on the producer of this country's economic wealth.

It is this producer, our cultivator and agriculturist, who is the real sufferer by the currency manipulation, not the export merchant, because the latter will only pay the producer such prices as he gets from the foreign buyer less his own margin of profit. To take jute, if the foreign buyer gives £5 f.o.b. Calcutta for a bale of jute, this export merchant will offer to the producer the equivalent of Rs. 75 per bale at the old rate of exchange, and only Rs. 50 per bale at the new rate. The merchant will take very good care that he does not pay more than he himself gets. It is the producer who will be getting Rs. 25 less. Now, I put it to you

Is this producer of jute, of wheat, of cotton, of seeds, e'c., etc., an infinitesimal fraction of the population?

Everybody knows he is the greatest part of the population of India. When these apologists of the Government have to resort to such shift as mixing up the parasites (the export merchant) with the trunk of the tree (the producer), they could not have a good case.

I come to the next charge, *viz.*, that I ignore the fact that one of the main objects of the Committee was to prevent a disastrous rise in prices in India. May I point out that even this charge shows a want of candour in these apologists of the Government. Let us look at the terms of reference. They are—

1. to examine the effects of the war on the Indian Exchange and Currency system and practice and upon the Indian Note Issue; and

2. to consider whether, in the light of this experience, and of possible future variations in the prices of silver, modifications of system or practice may be required;

3. to make recommendations as to such modifications; and

4. generally as to the policy to be pursued with a view to meet the requirements of trade to maintaining

a satisfactory monetary circulation, and to ensuring a stable Gold Exchange Standard.

I have quoted absolutely verbatim from the report itself and challenge my opponents to show where there is a question of the high prices. As the first issue has been garbled by mixing up the exporter and the owner of the exports, here also an attempt is made to import into a purely currency inquiry another inquiry on high prices and thus find a defence for the most indefensible action of the Currency Committee in changing our standard unit. If the change of unit had sanction behind it in currency doctrine, this famous Committee would not have failed to rely on it, but they knew that from the currency point of view the change of the standard unit of a country would be wrong, and they drew this red herring of high prices across the trail of the currency question, and wanted to justify their wrong by working on sentiment when they could not do it through currency science.

Even the trend of inquiry on prices was intentionally misleading. If you look into their examination of the witnesses, you will find that the Committee tried their level best to show that the producer of this country did benefit by the rise in exchange in the case of some articles, but the only thing they could think of was copper goods. It was clear that even these special pleaders for a wrong currency policy could not put forward cheaper refined sugar, or Manchester dhotees, or silk sarees, or motor cars, or the hundred and one other luxuries that India imports as articles by the cheapness of which the producer of India benefited. I hope with your permission to analyse trade returns for your readers one of these days, and to show that all this talk of benefiting the millions of India is hollow, and that the result has been to benefit the wealthy classes at the expense of the toiling millions; in short, that the result is to make the rich richer and the poor poorer.

The next point the *Statesman* makes is that the poorer classes and those dependent on fixed incomes are hard hit. I do not dispute that they are, but are the people with fixed incomes the largest or the most important part of

the population? If not, should not the maxim of the greatest good of the greatest number prevail? If it does, then the interest of the agriculturist should have the first consideration as he makes up the largest part of the population of this country. Even assuming that fixed income people should have the first consideration, let us see what they suffer most severely from. They suffer most from the high prices of foodstuffs, not of motor cars or silk sarees. The high prices of foodstuffs last year were due to an abnormal shortage of crops, and exchange could not have helped them. Already prices of joovar, bajri, etc., are rapidly falling, but not owing to exchange. The decline is due to full crops and control over exports.

The *Statesman* quotes Mr. Dalal on this head, and says that although he considers the raising of the exchange a questionable method of lowering prices, it is at all events one method. I will only say to this that a method may be fair or it may be unfair, and a resort to unfair methods to achieve an end however good cannot be justified or defended. The method adopted is unfair because even Mr. Hailey has had to admit at Delhi that the producer will lose 12½ crores by these currency changes. Why should he lose for the sake of other people?

If the producer is numerically the largest class, his good should prevail over that of others.

If the producer class is numerically as large as the consuming classes, he will be losing in his income and gaining on his disbursements, which means that there would be no point in changing our standard unit.

If the producer class is smaller than the consuming class he might have to be sacrificed to the consumer, but even then he cannot be asked to sacrifice himself a day longer than is absolutely necessary, *i.e.*, his sacrifice should cease as soon as prices attained a more reasonable level.

Why should the Government do it in a way that will deprive the producer of 12½ crores of rupees for all times?

There are various ways in which a Government can raise money from its people. They can

(a) tax openly through customs, excise, etc., etc.;

(b) ask contributions from people with their knowledge though without their consent, we know of the benevolences of James I.;

(c) get money from people as they are now doing not only without their consent but even without their knowledge.

It is the last that the Government are now doing through these exchange manipulations and that from the poorest classes of this country, classes admittedly submerged in debt. I leave it to you and your readers to say whether this is the most desirable way to get the necessary revenue.

However, the fact remains that while there has been this high-sounding talk of protecting the consumer, the real object, as Mr. Hailey has been candid enough to admit is to get  $12\frac{1}{2}$  crores more revenues. This again shows how wrong the change of standard is. It is not justified by currency doctrine, it is not justified by need of protection to the consumer and these issues are only put forward to conceal the real object— $12\frac{1}{2}$  crores more revenues from the toiling millions of this country whose real guardians and protectors Government profess to be.

We know how severely Europe and America and Japan suffer from high prices; how severely England itself is now suffering from high prices. None of these countries has yet thought of remedying high prices by tinkering with their standard unit. It is only in this country that such a thing is and can be done and the mechanism of the gold exchange system is utilised for such an end. If price modifications through currency changes are desirable, let us revert to the silver standard, as, then, rises or falls of commodities in terms of gold will be tempered by rises or falls in silver and this is a natural way without any tinkering with currency. I am not for going back to silver, but then at least we would have a real straight currency standard not the artificial and managed one that the present system is.

B. F. MADON.



## THE PUBLIC MEETING.

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We have already seen earlier that some prominent citizens of Bombay had called together a private meeting to discuss what steps should be taken in the matter of the currency policy of the Government. At this private gathering it was resolved that

“ This meeting requests the Indian Merchants' Chamber to convene at the earliest possible date a public meeting of the citizens of Bombay to give expression to the views of the public on the questions arising out of the Report of the Currency Committee, and to take such other steps as may be found necessary to bring about a change in the present currency and exchange policy of the Government.”

The Indian Merchants' Chamber under its energetic president Mr. J. B. Petit had already done signal service to the cause, and it was in the fitness of things that this public meeting should be held under its auspices. This meeting was held at the Excelsior Theatre on Saturday, the 20th March 1920. Mr. J. B. Petit was elected to the chair. Mr. Petit in his presidential address after explaining why they had come together that day gave a short resume of the past and present currency position and then went on to a criticism of the Majority Report and the action taken in pursuance of it. In the course of this, he said :

“ It is a matter of satisfaction therefore that the very able and vigorous dissenting minute of Mr. Dadiba Dalal, the only Indian member of the Committee, has succeeded to a very large extent in giving expression to the Indian stand-point and in mercilessly exposing some of the specious arguments of the Majority Report. Mr. Dalal has rendered signal service to the country ; and I am sure you will agree with me when I say that the best and

warmest thanks of the public are due to him for his bold advocacy of our rights.

“ Among other things, the majority of the Committee appear to labour under the mistaken idea that a high Exchange re-acts favourably upon the industries of the country and on the prosperity of the people ; that the exports of the country, and even the producers thereof, would not suffer by it ; and that it would have the effect of materially bringing down the high prices of food-stuffs. The Majority Report has, therefore, naturally not only accepted the statement of the facts and incidents as presented by the Secretary of State and the Government of India as legitimately leading up to the different Currency and Exchange measures adopted by them from time to time after the declaration of the war, but has also put the seal of its approval thereon. It has also made the blunder of giving a very rude shock to the confidence of the public in the good intentions of Government by so lightly agreeing to the abandonment of the old standard of Rs. 15 to the pound ; and recommending a new ratio of 2s. to the rupee without seriously trying other methods and averting this change in the fundamental standard of the country.

“ The enormous harm done to this country by a high rate of Exchange is a fact so undisputed and universally accepted by all shade of opinion, that I have not yet heard it seriously challenged, at least by any qualified Indian of whatever party he may happen to be. The export trade, upon which very largely depends the prosperity of millions, in the country—the ryot, the producer, the agriculturist, the day-worker in the fields—must suffer adversely in consequence of a high rate of exchange. To talk of the producers or the middlemen, even in relation to such articles of produce as are in the nature of monopolies like jute, holding on indefinitely or dictating their terms in a world-market, where prices are guided and controlled by world causes, is to talk nonsense. To expect a manipulated high rate of Exchange to bring down the prices of food-stuffs in the country, is to expect the impossible, as has been more than amply shown by

the results of the exchange manipulations of the last few days, the rate persisting in going down in obedience to natural causes, in spite of desperate attempts to the contrary. The reasons for this abnormal and continued rise in food-stuffs and other necessaries of life will have to be looked for elsewhere.

“ The loud talk about the saving in the home-charges is equally misleading, when we realise that the gain shown has really come out of the pockets of the farmer, the ryot, and the producer. Even this saving is only a fraction of what he has lost and is losing, the balance having gone to fill the pockets of the foreigner, who has been enabled by this manipulated high rate of Exchange, to make a clean sweep from this country of its raw materials, food-stuffs and other articles of use, at a cheaper rate than he would have had to pay at the ratio of *rs. 4d.* to the rupee.

“ A report that is so manifestly unjust and one-sided ; that has so unparadonably ignored Indian opinion and so hastily endorsed the clear cut views of interested cliques in England has naturally come as a disappointment to the country and chilled our faith in the good intentions of the Government. That questions of this magnitude, relating to the life-blood of a country, should be disposed of in this off-hand and summary manner by practically a Committee of outsiders, as has been done by the Majority Report, is outrageous in the extreme and without a parallel in any other civilised country of the world. But, it is absolutely impossible to restrain ourselves when we find Government, exhibiting an indecent and almost criminal haste in putting the Majority Report into effect in spite of deliberate protests against its findings ; and the considered and constitutional representations of public bodies praying for postponement pending the consideration of its recommendations by the country. We have thus before us the melancholy spectacle of an apparently constitutional Government, bartering away the interests of a helpless subject people without even a semblance of a calm and careful consideration of the many momentous issues involved !

“Side by side, the Government of India have commenced during the last month and a half to sell Reverse Councils for very large amounts; and have continued to do so weekly. Upto now they have thus sold Reverse Councils for about £12 to 13 millions, in spite of repeated and emphatic protests from almost all important quarters, both European and Indian. I cannot help saying, that under present circumstances, there is absolutely no justification for resorting, in this wholesale manner, to what at best cannot possibly be described as anything more than “an emergency measure.” Even the Majority Report recommends “that 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. Is there such weakness now? Did any weakness exist when the policy of selling Reverse Council Drafts was introduced? The country is entitled to know why and under whose orders this system has been introduced. The reason given in the Government communique and in the Finance Member’s speech is, I cannot help saying, anything but convincing. We are seriously told that large accumulations of war and other profits and savings made in this country and intended for ultimate remittance to England were impatiently waiting for facilities of remittance and that a benign Government impartially just to all has, in the plenitude of its generosity, come forward to provide such facilities by instituting this method of Reverse Councils, at a time when our harvests are plentiful and the balance of trade is very much in our favour. It would be interesting to know how Government were able to find out what these profits were; and how, even if this excuse were a fact, they were able to ascertain that these profits were so anxiously awaiting remittance Home, as to be provided these special facilities, and if it was the business of the Government to help such profiteers in the manner they say they have done. It would be equally interesting to know why Reverse Councils were sold for the

benefit of such remitters at rates which were not only higher than two shillings, but as much as 3½d. per rupee, more than those obtainable in the market when the very best rate they could have got upto the end of the war was 1-6 or 1-8? And why again the middlemen—mostly European firms and Bankers—were allowed to swallow this gain at the expense of India, to the total exclusion of Indians, including even *bonâ fide* remitters? I have already carefully read the remarks of the Finance Member more than once on these and other points of importance connected with this question; and I have no hesitation in declaring that the explanation vouchsafed is exceedingly lame and unsatisfactory. In fact, the defence is worse than the crime."

#### INDIA'S RIGHT TO KNOW.

"In face of these momentous issues, the question naturally arises as to why the Government, if they are really in the wrong, have then deliberately resorted to these measures? We can legitimately inquire why India, in spite of the fact that the balance of trade is so largely in her favour and she has enormous assets piled up abroad, is being thus tossed about by every wind that blows and has to helplessly run tandem to the vagaries and uncertainties of the American cross rate. We have a right to know why India has been called upon to face a veritable revolution in her currency arrangements with all their attendant evils, in spite of the fact that the war as a whole brought a period of great economic prosperity to the country. The answer to these queries is very simple, and it is due to us and to our self-respect that it must be freely and frankly given. The whole situation lies in a nut-shell. This dislocation has been brought about by the executive action of the authorities, not for the benefit of India but of England; and the interests of this country have been unfairly subordinated to those of England.

"The whole situation is one of melancholy significance; and this country demands an early reconsideration of it from end to end, in consultation with qualified

Indian opinion, in order that it may be still possible to evolve a policy, which whilst it may benefit India, need not necessarily harm England and thus enure to the advantage of both; thereby materially contributing to the welfare and contentment of the teeming millions of this country."

The Hon'ble Mr. Purshottamdas Thakordas then moved the first resolution as follows :—

" This public meeting of the Citizens of Bombay enters its emphatic protest against the constitution of the Indian Currency Committee and the general disregard shown in the recommendations of the Majority Report thereof of the expressed opinion of the Indian commercial and industrial community."

He was ably seconded by Mr. Manu Subedar and supported by Mr. Jamnadas Dwarkadas, who said among other things :

" Was it not ridiculous that on a Committee appointed to consider the question of Indian Currency they should have had only one Indian, that the Committee should have met not in India but in London, that out of the total number of 28 witnesses examined there should have been only five Indian witnesses, and that the Committee should have made no reference in their report to the suggestions made by the Indian witnesses."

Then Mr. S. R. Bomanji moved the second resolution condemning the Report in general and the Reverse Bills in particular. The resolution ran thus :—

" This meeting strongly condemns the action taken by the Government of India on certain recommendations of the Majority Report of the Currency Committee; and in particular the action taken by them in selling Reverse Council Bills at a time when the balance of trade is so highly in favour of India and in a manner which involves serious losses to the country's reserves in England and other consequences disastrous to the money market, trade and industries of this country; and urges the immediate discontinuance of such sales."

Mr. Bomanji said :

' In this connection so much has been spoken and written in the Press that it would be superfluous for me to give you the history of this operation, but let us try and understand what the Government have done. They have appointed a Committee which, as previous speakers have pointed out, was defective in its constitution. The majority of the Committee, that is to say, all the English members of the Committee, have made recommendations which cut at the very root of all the confidence which the public should have in the currency of their country. By a stroke of the pen the Majority Report has assumed that 2s. in gold is the best ratio for the Indian rupee. They have further assumed that the best way to establish this ratio is by fixing on the American cross rate, and by making the Indian Government dance whichever way the tune was played from London. In adopting this policy recommended by the Majority Report the Government of India have taken certain steps notwithstanding the universal protests from Indians. Amongst the people who protested, the greatest of them all is Mr. Dadiba Dalal whose Minority Report the Government have absolutely ignored, but who very courageously took up the cudgels for what he thought right and good for his country. Gentlemen, we have hardly appreciated the great services that Mr. Dadiba Dalal has rendered to India by his Minority Report which I am happy to think has evoked very strong support even from outside sources, such as Mr. Ewart S. Grogan, the East African millionaire, who in his letter to the *London Times*, which I have to-day distributed to you all in pamphlet form, strongly supports his Minority Report, and I am rather surprised to have such strong support from a quarter which cannot be considered as by any means friendly to us. Gentlemen, we know that Mr. Dalal is not a politician, and we further know that he is more pro-British than most Indians and he characterises the attempt to change the standard ratio which the Currency Committee have done as a "device to deceive

the people." One of the steps, gentlemen, taken by Government is the selling of Reverse Council Bills."

#### LEGALISED PLUNDER.

"Gentlemen, I do not wish to pose as an expert, nor do I wish to make this meeting follow me in the rather involved reasonings and history which I would have to give them in order to explain every evil result which comes out of the adoption of this policy. But there are certain very obvious things which I am sure have not escaped the notice of the Indian public. When the market rate of exchange was 2s. 4d., Government came forward in their usual blundering manner to carry out, in the letter instead of in the spirit, the Majority Report recommendations. In doing so they have caused in the last few weeks exchange fluctuations unknown in the history of this country. They have paralysed trade of all kinds and they have caused a waste of accumulated reserves in the sale of Reverse Bills. The reserves, I speak of, have been accumulated at the rate of Rs. 15 to the pound and are being dissipated at the approximate rate of Rs. 7-8 to the pound. This operation involves India in a loss of 1½ crores of rupees per week. Government is endeavouring to throw dust in our eyes, and conceal this loss by putting Indian Treasury Bills in Paper Currency Reserve under the new powers taken last Thursday at the Imperial Council at Delhi. If this *ruinous policy* is persisted in, the financial resources of India will be dissipated, and next year Government will be forced to propose fresh taxation. At 1s. 4d. exchange we were the world creditors, but under the trusteeship of Great Britain our prosperity is not only being undermined, but we may gradually dwindle into world debtors, if the sale of Reverse Councils is not stopped, and exchange is not lowered and the rate for acquisition of sovereigns changed by gradual stages from Rs. 10 to Rs. 15. When I read the figures of the applications for Reverse Council Bills, figures which have been swollen artificially by speculative tenders called into existence by Government, I ask myself whether this is not a direct invitation for a share in



the "legalised plunder" of Indian funds to every Exchange Bank and to every Englishman and foreigner in India. The loss which is inflicted on Indian Reserves is already well-known. It amounts to several crores of rupees which has been admitted by the Finance Member in his speech. Even in the sale of Reverse Bills the Government have discriminated against Indian applicants. They have been led from one false step into another until every honest citizen of this country cannot but characterise the process that is going on except as I have characterised it by calling it an "organised loot." Are the Government going to perpetuate this loss, and are they going to persist in the course of policy which has been condemned over and over again?

"When the history of these times comes to be written if it is written by Englishmen they will doubtless say what the Majority Report has said about the various faults, blunders and errors of the Government of India and the Secretary of State in the last five years. In this connection I cannot do better than quote Mr. Ewart Grogan. Referring to the adoption by the Government of India of the Majority Report and their subsequent action, he says :

"The fact remains, however, that the paramount duty of the Indian Government was to maintain its currency machine in tune with the Monetary Law, in order to protect the Indian people from distortion of all their financial adjustments and from the immeasurable suffering that inflation of the unit of value necessarily inflicts on the struggling debtor class. The Indian Government's total failure in this primary duty will mature as the most desolating of its many failures during the last five years. The hesitations, evasions, compromises, timidities, tentative advances, inconsequential withdrawals, smug satisfactions, and complete lack of any defined and continuing policy based on recognition of the vital principle at stake, which the war has taught us to associate with entrenched bureaucracy, are well brought out in the evidence of the Indian bureaucrats. This abject

failure to perform one of the primary functions of Government is treated with a bucket of whitewash from the non-official members of the Commission, who in paragraph 32 "desire to place on record our recognition of the skill, courage, and resource which the Government of India and the authorities at the India Office have shown."

There is little that I can add to this except saying that in this matter the Government are betraying the trust which has been put on them and are weakening to the very foundation the confidence felt by the Indian public in their wisdom and in their integrity.

#### MR. HAILEY'S ARGUMENT REFUTED.

Continuing, Mr. Bomanji said :

"There is one more point to which with your permission I shall speak for a minute. Mr. Hailey from his position as Finance Member of the Government of India has tried to answer the charge which I have laid with regard to the sacrifice of Indian interests by the Government of India and by the Secretary of State and his financial advisers. Mr. Hailey pathetically asks whether he and his distinguished forerunners in office have pocketed any part of India's money. This I must say is absolutely ridiculous, and is an attempt to evade the main issue. No one is charging any individual officer of Government with misappropriation when he says that the interests of Indian producers are being sacrificed, that the interests of Indian trade and industry are being adversely affected, and when the public see from day to day the losses running into millions of pounds inflicted on the Indian tax-payer. The charges which we have laid against the Government of India they have not tried to meet. The most honest way of meeting them was to say that the Government of India is merely a Post Office and that in currency matters they are absolutely powerless. They have to carry out the mandate sent by the Financial Authorities of the India Office. Instead of

declaring that he was powerless to do anything one way or the other Mr. Hailey has taken upon himself the burden of defending without any conviction the action taken by the authorities in the India Office, Sir James Brunyate & Co. He is not himself convinced, as his speech makes it obvious, but if he would like this matter to be considered in detail, and if he throws out a challenge, and if he is sincere about it, I for my part am quite ready to give him chapter and verse. I would content myself with only one illustration. When Great Britain wanted to purchase wheat in India for Army requirements the Government of India first prohibited the export of wheat on private account thus lowering rupee prices, and used India's gold to a certain extent for this purpose and with that gold sovereign which was worth Rs. 17 to Rs. 20 per sovereign at that time they purchased wheat worth Rs. 17 to Rs. 20 and charged the Allies at Rs. 15 inflicting a loss on this country of Rs. 2 to Rs. 5 on every Rs. 15 of wheat purchase. On the other hand when during recent food difficulties Great Britain imported Australian wheat we know that the Australians insisted no payment for this wheat in gold and also that they insisted on being paid not the current price ruling in Australia but the market price in London so that for wheat which Great Britain and Allies got in London they had to pay the London prices which were very high and included the freight for reaching all the way to London and the insurance and all the other charges. Any businessman will see at once what enormous difference this may be. When you want to purchase from India you squeeze us down to the lowest price possible and when India has to purchase anything she must purchase as top prices. This tortuous wheat policy, gentlemen, was carried out by Mr. M. M. S. Gubbay whose nomination as Financial Secretary to the Government of India it received with great alarm throughout the country; Mr. Gubbay being one of the signatories of the Majority Report of the Currency Committee he is not entitled to his new post as India views with alarm his currency and financial policy.

## PREPARED TO SUBSTANTIATE EVERY CHARGE.

Concluding, Mr. Bomanji said :

“ I can go on indefinitely multiplying examples, gentlemen, but I cannot intervene between this meeting and the other eminent speakers who are to follow me. I will, therefore, content myself with saying that I am prepared to substantiate every charge which I have made against the currency and exchange policy of the Government of India, and that to me the enormous sacrifice of this country's interests does not appear as anything but an “ organised loot ” and that the intelligent Indian public will go on protesting against this policy until they have secured the final reversal of this policy and the establishment of honest currency conditions according to the dictates of the opinion of the people of this country and all the losses incurred by this country is recovered from the British Treasury. In the meanwhile we urge on the Government's immediate stoppage of the sale of Reverse Council Bills. If they want to know what is the alternative which we proposed to have, that alternative in one word is :

*“ Remove the restrictions on the importation of gold into this country and let anybody who wants to purchase things from India pay for the purchase in gold.”*

If Government do not deem it advisable to remove the restrictions on the import of gold at the present juncture, then let them at least have the acquisition price of gold raised. I am not saying this to justify this meeting, but I am saying this to meet the charge made by Mr. Hailey that no alternatives have been suggested. It is an untenable charge, and I am sorry that Mr. Hailey could not think of a better answer.

## APPEAL TO INTERNATIONAL JURY

“ Gentlemen, it is because we have no faith in the reactionary advisers of the India Office that our Chamber of Commerce has been compelled in absolute despair, to appeal to an International Jury and we have adver-

tised for a monograph on currency matters to be submitted to the League of Nations. India as represented by this Indian Merchants' Chamber has tried its very best to make representations to the Government of India, and having failed to get any redress to their grievances has been compelled to appeal to an International Jury against the policy as laid down by Great Britain whose sole desire is to make India a dumping ground for Manchester and other British manufacturers as Mr. Grogan has so ably demonstrated in the letter which I have distributed, and I shall close my speech quoting the six possible theories of Mr. Grogan, whereby he thinks the report can be explained in terms of reason :

(1) A plot to whitewash the Indian Government ; (2) political influence leading to a premeditated policy of assisting Manchester and Dundee exports by imposing a burden equivalent to 100 per cent. sterling excise on their competitors in India ; (3) financial influence leading to a premeditated policy of sweeping every Indian debtor into the maw of the British Banking Trust ; (4) subservience to same factor desperately interested in the maintenance of the high value of silver ; (5) an organized attempt by the Indian bureaucracy surreptitiously to multiply its salaries and pensions ; (6) all-round general nescience on the part of all the responsible parties."

" I have much pleasure in proposing the resolution for your kind acceptance."

This was seconded by Mr. B. F. Madon who said:—

" Our objections to these Reverse Bills are : (1) that the trade situation does not justify such sales ; (2) that they have involved India into an enormous and yet unnecessary loss by the way the sterling assets of this country are thrown away at bargain counter rates ; (3) that the procedure has created most undesirable speculation ; (4) that it has seriously hampered the natural flow of our export trade, and (5) that the step has created serious stringency in the money market, with consequences that are sure to be disastrous to the trade and

industry of this country if the Government persist in their present course.

“ I will say a few words on each of these points. First let me point out that the only justification for Reverse Bills is to support exchange in times of weakness as laid down in so many words by their own Committee. If exchange is weak at 2—4 it could be supported at that level if the Government thought this necessary; but the thing becomes indefensible when on this ground it is put up to 2—10, etc., following the New York rate. We, however, deny that there is any real weakness of exchange, *i.e.*, that exports are now insufficient to balance imports. The Finance Member relies on the great demand for these Reverse Bills as a proof positive that the demand is a genuine trade demand. I will show you how wrong such a deduction would be by a homely simile. Suppose a child is very fond of sweets. Suppose it has an ample dinner and then tempting sweets are spread before him. This child will begin eating these sweets with avidity. Would any sensible man argue from this that the child had been previously starving? What the Government has done is to spread such sweets before the speculative public here in the shape of a clear 10 per cent. and more profit in a single day and without the slightest risk of loss. They have been overwhelmed with applications for Reverse Bills, but they cannot argue therefrom that it is all genuine trade demand.

“ There is a much surer test. Reverse Bills, as the Finance Member has been good enough to explain, are the equivalent of the export of gold. Therefore, the demand for them means that there are many people wanting to export gold in settlement of their dues abroad. Let the Government apply the test. Let them give the gold out here at their chosen rate of 11·30 grains, to the rupee and let the allottees themselves look after the shipping, and see the result. They will find that all these people were only after the profits or what Mr. Bomanji would call “ loot,” and they will promptly realise the gold here as the profits will be greater than by shipping it out.

## SACRIFICING INDIA'S STERLING ASSETS.

"So much for the genuineness of the demand. I go further and say that even if the demand was there, it is not right that the Government should supply it at an enormous sacrifice of our sterling assets. When two years ago silver went over 45*d.* the Secretary of State declared that he could not think of selling rupees at a loss. The loss to the Government then was trivial compared to the enormous sums they are now throwing away week by week because we had paid Rs. 15 for every £1 now held in London for the bulk of our sterling assets, and to-day the Secretary of State is selling back the same £1 at only Rs. 7 or thereabouts and as they are now selling £2 millions a week, the loss to this country amounts to the tremendous sum of 1 crore 60 lakhs per week. We may well ask why the Secretary of State now so lightly treats this tremendous loss on our sterling assets? Why does he throw them away to-day at bargain counter rates, at rates so tempting that by their own admissions heavy speculation has been the result ?

"The Government has been obliged to curb all this speculation by regulations which, however, have not improved their position in the eyes of the public. They first tried to discriminate between applicants on the ground of their *bonâ fides*. Do they mean to tell us that only big bankers and merchants that can write cheques for lakhs are *bonâ fide*? These people will speculate like any other if they see a good profit ahead. The Government has had had the good sense to cancel this discrimination, but their other regulation requiring a margin by a certified cheque for 20 per cent. of the amount applied for remains. Now, we know that the allotment comes to about 2 per cent. of the application. Therefore, an applicant has really to put up ten times the amount he is likely to get. If a man wishes to get £5,000 allotted, he must put up a margin of £50,000. It has cut out the small man, however *bonâ fide*, and has left the spoils to the big bankers and merchants which is manifestly a very unfair arrangement. Does not the

policy of the Government stand self-condemned when they have to hedge in the sales of Reverse Bills with such means in the hope of keeping but the speculator? If the demand is genuine trade demand why these supposed safeguards? And in any event, what on earth has a bank of issue to do with the motives of applicants for gold for export? If the sales are right, let the entire public benefit, if they are wrong let them be stopped altogether."

Proceeding, Mr. Madon said:

"Another objection to these Reverse Bills is that they hamper the natural flow of our export trade. Remittances are the natural cover for export bills, and by taking them away from the market Government is taking away so much of our export cover, and make the realisation of our produce more difficult. The ultimate sufferer is the grower of produce. Another very serious consequence of these Reverse sales is that funds have been withdrawn from the money market, a serious stringency has been created, and what is much worse there is a sense of insecurity and apprehension in the money market as to the future. In view of the storm of protests raised against the sales of Reverse Bills, Government has been obliged to modify its policy and return part of the funds withdrawn from the market back to the market. But how? By further inflation or as they term it "by creating rupee securities *ad hoc*." What they propose to do is to use up the proceeds of the Reverse Bills for their own purposes, and deposit in the Currency Reserve an equal amount of Treasury Bills, at least it is thus I understand it."

#### STOP THESE REVERSE SALES.

The Finance Member asks us for alternatives. My reply would be—

"Stop these Reverse sales. Do not interfere with the natural course of trade allow gold to come in freely. Stop all your artificial interference with our currency.



If you cannot give us rupees without loss, do not give them at a loss. Fix your price for selling rupees in the same way as you did for the past three years, *i.e.*, in relation to the price of silver from time to time, but, in any case, do not force upon us a change of our standard unit thereby upsetting the relations between the debtor and the creditor, greatly to the disadvantage of the debtor class, which means the toiling millions of this country. Go on as we are till times are more normal and we have more reliable economic data before us.

“ If you are determined to force this change of the standard unit on the country, at least do it without undue disregard of India's interests, at least without putting this country to further enormous but avoidable losses. You want your ultimate rate to be 2 well support the exchange when it breaks below that figure Do not let us be tossed about by fluctuations in the New York rate which we cannot control. Do not sacrifice our assets in the vain attempt at stability based on this rate ?

“Already America threatens to revoke the Pittmann Act which has fixed a bottom limit to silver. The next Government there is likely to be Republican which means that it will be most anxious to kick silver out of the country for good and all, and the silver democrats will not then carry the day as they did last year. I say to the Government do not hurriedly launch this country into an economic upheaval on the basis of deductions drawn from present abnormal conditions.”

Concluding, Mr. Madon said :

“ Let not the Government beguile itself into the belief that it will be able to take away crores of rupees from the pockets of our producer without his realising what it means to him. He will know one day that he has been wronged, and that day will not be long in coming, and then the contentment of the masses and their faith in the Sarkar will be rudely shattered, and it is in this contentment and in this faith that lie the foundations of the British Raj.”

The Hon'ble Mr. C. V. Mehta then moved the third resolution :

" This meeting views with great indignation the introduction of the Bill to amend the Gold Import Act of 1917 which seeks to prolong the restrictions against the import of gold in India which are preventing exchange from reaching a natural level and which therefore are in contradiction to the recommendation of both the Majority and Minority Reports of the Currency Committee and also to the unanimous public feeling in this matter."

and was supported by Prof. Kale and Mr. Hansraj Pragji Thackersey.

The next resolution was moved by Mr. N. M. Mazumdar. It ran :

" This meeting earnestly prays for an urgent reconsideration of the entire policy of the Government regarding Indian Currency and Exchange in the light of Indian opinion and requests the Government not to act on the Majority Report of the Currency Committee by executive order."

In moving this resolution he said :

" This resolution, first of all, asks for a reconsideration of the entire policy of the Government in Indian Currency and Exchange. I think we all agree that this is imperatively necessary, because the personnel of the Committee did not command the confidence of this country ; because the Indian mercantile and industrial community, who are vitally concerned in the question, were not represented on it, except by Mr. Dalal ; because it did not take any evidence in India, which is most affected by the question ; and because its terms of reference were definitely confined to the maintenance of the Gold Exchange Standard, which has obviously broken down. I say, Government had no business to dictate to the Committee what the standard should be. To that extent, the findings of the Committee have been vitiated. It might be urged against this part of the Resolution, why should

the country incur the expense of another inquiry? But what would be that expense compared to the tremendous losses that we are incurring to-day, as a result largely of the findings of this Committee?

“Secondly, the resolution urges that the whole question must be considered in the light of Indian opinion. This is equally necessary, because it touches so vitally Indian trade and industry; because it affects the Indian producer and tax-payer; and because the measures taken, even after the war, have been taken in utter disregard of Indian opinion, even in defiance of it. The resolution, thirdly, urges Government not to act on the Majority Report of the Committee. This is also necessary, because the Committee start with the assumption that a high rate of exchange is good for India, in that it tends to bring prices down. Well, you have only to raise it sufficiently high, and all prices would disappear! That is, you would be able to obtain everything free in the country! The argument is so untenable that even the Finance Member has confessed that prices will be checked only for the time being. There is again not the slightest justification for fixing exchange permanently at 2 shillings, permanently penalising the Indian producer. No Government has the right so lightly to change the statutory unit of value of a country. Further the report perpetuates the dominance of English financial interests in the Currency and Finance of this country; the interests of the Bank of England; the London Joint-Stock Banks; the British Treasury; the Royal Mint; the London Silver Market and the British manufacturers. The report further seeks to perpetuate still the location and employment of a large part of the Reserves of this country in England, which to be of any use to us must be held in India and in gold. The report, in a word, perpetuates the system of a “managed” currency, instead of a natural one, “managed” by the Finance Committee of the Secretary of State’s Council, on which Indian interests are not represented. And why this inordinate haste to act on the recommendations of this particular Committee, when Government ignored the

recommendations of a Royal Commission which reported on the subject before the war, and the Report of the Fowler Committee of 1898 ?

#### LEGALISED CONFISCATION.

“ Lastly, the resolution prays that action be not taken by Government on a mere executive order. Nothing is easier and simpler for the Governor-General than to issue currency ordinances, without consulting his Legislative Council, let alone the general opinion of the country. Is the opinion of the Council, of the elected representatives of the people, to count for nothing on this momentous question ? True, the Governor-General in Council has power to issue ordinances in case of emergency for the peace and good government of India. But when they are exercised for the bad government of India, the sooner they are restricted the better. These powers have been only rarely exercised ordinarily. And there was no occasion to resort to them in this case, as the Legislative Council was in session four days after the report of the Committee was published. Take the Currency Ordinances of Government. Take the gold transactions of Government. Take the preposterous and outrageous policy of selling Reverse Councils in the teeth of public opposition, when the balance of trade is in our favour and when our creditors have to pay us in gold or in securities, which is being denied to us. Britain bought from us during the war food-stuffs and munitions at  $1/4$ , and now when it comes to pay for them, even though a part of the debt was written off in the free gift of a hundred millions the exchange is arbitrarily raised and Reverse Councils sold even at 2s. 10d. so that Britain pays less in rupees to a poor country. Thus millions of pounds standing to our credit in England are being wiped away. If this is nothing short of a legalised confiscation, what is ? If this is nothing short also of a huge tax on the people, what is ? Even the Finance Member has admitted it in so many words, for he has admitted that the profit on exchange comes ultimately out of the pockets of the producer. It is a tax,

moreover, stealthily imposed, outside the Budget, indirectly none the less effectively and oppressively on the poorest of the poor, whose taxable capacity is admittedly so very low, and which is so heavily overdrawn already.

#### APPEAL TO STAND TOGETHER AND FIGHT.

"I want you to take all these factors into account,—take into account this constant tampering and tinkering with the currency and finance of the country,—with the life-blood of a people. Do you wonder then at the sorry plight of the Finance Member, defending the most unjustifiable measures, with a new excuse every time, changing his ground once in the press and then in the Council? If the finances of this country are to be treated as the instruments of the financial interests of England, I ask, is there no conscience left in British statesmanship in England and in India? Are the interests of the poor toiling millions of this country to count for nothing in this wretched unworthy game? If the issue is between autocracy and selfishness in finance pure and simple, as opposed to the general interests of this country; if it is whether a just, natural and a sane finance should have its play or not; if the issue is whether the interests of this country are to be of primary importance or of no importance at all; if the issue is between powerful vested interests in England operating cowardly against the patient, dumb, toiling, helpless millions of this country; then, Sir, I submit, it behoves every son of this land to stand together, and fight it to the bitter end."

Among other well-known speakers were Messrs. Mowji Govindji, S. E. Warden, Golabchand Devchand, Fazul Ibrahim Rahimtullah and J. A. Wadia and the hall was absolutely crowded and the resolutions were carried unanimously.

As the apologists of the Government have tried to make out that the meeting was not representative of Indian public opinion it might not be out of place to remark that among the promoters of this meeting were leading Indian mem-

bers of Council past and present and leading Indian merchants and millowners. The European merchant was of course conspicuous by his absence, and well he may, because he had no stake in the country and all he cared was to see that he got the largest number of pounds for his rupees when he wanted to remit.

#### THE PUBLIC MEETING AND THE BOMBAY CHRONICLE.

In reviewing the proceedings of the above meeting the *Bombay Chronicle* said :

“ The public meeting held last Saturday under the auspices of the Indian Merchants' Chamber and Bureau, had several advantages making for its success as a demonstration of protest, but none of them was so valuable as the fact that it took place after a full hearing of the Government case from the Finance Member. All that he had to say in defence of the extraordinary currency operations of the Government, he said with much warmth and many protestations of personal innocence. We admit that Mr. Hailey is not on trial, but the arguments he brought forward to justify the high rate of exchange, the linking of Indian exchange to the American cross rate, the sale of Reverse Councils, the indefinite bar against the private importation of gold—these are open to criticism as matters of vital economic interest to the country. A more unfortunate and indefensible case was never handled by a Finance Member and at every turn he had to shift the grounds of apology and substitute irrelevant disputes for the questions at issue. Though on vital matters, Indian members were incontestably in the right, they did not fight with that persistency and grasp of detail which were necessary for the complete routing in arguments, as apart from votes, of official apologists. Nevertheless the notable speeches of Sir Fazulbhoj and Mr. Sarma on the absurdity of excusing one blunder with another were responsible for completing the opposition of public opinion to official policy and acquainting Government with the utter distrust with which people

looked upon their operations. Throughout the discussion of currency matters and the measures claimed by Government as necessary, Indian members remained in bitter opposition, and the last Paper Currency Bill was carried by weight of the statutory majority against the protest of non-official Indians. The Council is over and Government are apparently committed to pursue their course, with the sorry assurance that they will inform the Secretary of State of the Indian feeling with regard to their policy. We are disappointed that Government exhibited a facile tendency to belittle the advantageous position of India and hesitate where there ought to have been ungrudging recognition of our economic claims. However that might be there is nothing left for Indians to do except to agitate against the heedless policy of Government. The clash is not one of economic theories, as Mr. Hailey professed to think, but of financial interests and the position has now become too clear to be obscured by explanations. And the meeting held in Bombay, we hope, is the beginning of a powerful agitation against the machinations of non-Indian interests.

No language in our judgment could be too strong in condemning the attitude of a Finance Member who could defend the raid on our sterling reserves in England at a rate of  $3\frac{1}{4}$  pence per rupee in excess of Bank quotations, on the ground that the securities would have been in any event depreciated and the margin might be reckoned immaterial. The so-called *potential* loss is itself a wrong and the actual loss caused by artificial means, merely aggravates the scandal. The speeches delivered at the meeting in Bombay constitute a crushing indictment of Government policy, the climax of unreason in the sale of Reverse Bills being only one of the artifices by which the currency advantages of India have been tampered with. The presidential address of Mr. Jehangir Petit was a lucid survey of the currency operations of the Government during the war, for which their advisers in the Currency Committee gave them a certificate of merit. It is not necessary for us to repeat

the claims of India which we have often commended as unanswerable ; but right through the policy of Government there was not the slightest deference paid to Indian sentiment and we have unfortunately arrived at a stage in which the entire community suspects that its *interests are sacrificed for undeclared purposes*. We have in fact reached the limit. Till we secure due respect for Indian opinion, the currency and exchange manipulations of Government, directed from abroad, will remain adverse to our interests. The chief complaint of speakers was the utter helplessness to which Indians had been condemned, in spite of the fact that the object of enquiry was nominally Indian. The Currency Committee was untrustworthy. Gentlemen whose influence in the Finance Committee of the Secretary of State was under inquiry sat on the Committee and after the formalities of an investigation produced a report repudiated by the only Indian present and deliberately ignoring the handful of Indian witnesses who could appear before them. So long as the financial interests of India are retained for London for disposal Indians will rightly refuse to trust the pious intentions of the Government of India. The report they produced could not rightly be acted upon in circumstances different from what they had constructed for themselves as immediate certainties. Still, by a series of executive fiat the recommendations have been brought into force. Where the recommendations are not suited to the fancy of the gentlemen who dictate policy, they reject them. Take for instance the need of abolishing the embargo on the import of precious metals in the country. All the members of the Committee unanimously recommended it, but Mr. Hailey has taken a retrospective appreciation as a mandate for the future in spite of the definite opinion of the Committee to the contrary. Making a piecemeal fetish of the report, the subordination of Indian interests is continued, and the Finance Member had the hardihood to claim that the raising of the embargo should be a matter of executive pleasure. The commanding fact of the situation is that India holds a credit abroad and the balance of trade is in favour of India. What is due to us, we are entitled to be paid in



gold, but the inflow of the precious metals is checked and the operations recommended for a crisis of exchange weakness are prosecuted by the Government of India. Twenty millions of pounds have been sold out at a weekly loss of a crore and a half of rupees to assist the transfer of war-profiteered capital at profiteering rates. If the Government offered gold for a week in India, the transshipment explained as necessary would have automatically stopped.

“The excuse that Indians had never given an alternative to the sapient decisions of the Currency Committee is claptrap. Mr. Petit rightly asked how England would have treated another country in the same circumstances ; is ours to be all the disadvantage without even the chance of justice ? As Mr. Bomanji observed, we are entitled to the refunding of waste from Britain and Indians may be certain that if these transactions are scrutinised by an impartial jury of experts, the extent of their economic damnification will be readily conceded. Do the Government of India know that while they point to their twelve crores on exchange as a miraculous deposit in their chest, the producers who pay for it, are likely in course of time to realise the *stealthy levy* ? They make infinite capital of the reduction of prices by altering the exchange ; the reduction of prices by currency operations is only a temporary measure, and Britain with all the evil of high prices has not resorted to the means of making the pound equivalent to 15 shillings for the sake of enhancing the purchasing power of fixed wage-earners. For, there are limits to the reality of the reduced prices of imports, in spite of apparent and temporary relief. If the Committee went on the track of benevolent intentions, it entirely failed to grasp the far reaching effects of its other proposals. The sale of twenty millions of Reverse Bills has already caused losses to the country that outstrip the much-vaunted gain of twelve crores through high exchange. And what are the Government going to do with the rupee receipts in respect of the sale of Reverse Councils ? Are they going to use them for the redemption of their short term loans in view of their

maturing from 1922? We are being lastingly damaged by the results of our "managed" currency. Mr. Mazumdar, who in his spirited and convincing speech, moved for the immediate necessity of reviewing our currency position, pointed to the need of concerted action—in fact for "a fight to the bitter end." It is a pity—and perhaps an advantage—that the prospect of "Responsible Government" should dawn at a time when the people are made to realise their helplessness in the matter of their financial and economic interests. We congratulate the Chamber on their good beginning. We may assure them that the public are immensely benefited by their propaganda, and they will soon be able to have a large volume of informed opinion to support them and help, by every means, to save India's rights. For, who can convincingly repudiate the six explanations of Mr. E. B. Grogan which the *Times* published?"

## THE FINANCE MEMBER'S VISIT TO THE INDIAN MERCHANTS' CHAMBER.

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On Wednesday, the 31st March, the Hon'ble Mr. Hailey paid a visit to the Indian Merchants' Chamber, when he had the opportunity to hear at first hand the view of the Committee of this Chamber. The Chairman, Mr. Petit, in his opening remarks, said:

"I also beg to reiterate the considered and deliberate opinion of my Committee, already expressed to you in my official communication, that in common with the rest of the country, my Committee have received the Majority Report of the Currency Committee with deep and profound regret and consider it exceedingly unsatisfactory from the Indian point of view. It is a matter of regret to them that the Currency Committee, owing to its exceedingly onesided and narrow composition and the influence of more potential interests nearer home, has totally neglected and altogether failed to appreciate the Indian stand-point, as is apparent from the fact that Mr. Dalal, the only Indian Member of the Committee, has had to differ entirely from his colleagues and to write a distinct Minority Report. My Committee had at least expected that in a matter of this importance and magnitude, the Government would have given the country a chance of expressing its view on the findings of the Committee before putting them into effect. They deplore the fact that the Government have not only not done so, but have also thought fit to proceed in such undue and inordinate haste to give effect to some of the provisions of the Majority Report which in the opinion of my Committee are calculated to cause harm to the country.

“ I do not propose on the present occasion to enter into a serious dissertation on the many unsatisfactory and unsound conclusions of the Majority Report, but you will pardon me, Sir, for saying at least this, that my Committee are unable to endorse the dictum that a high exchange reacts favourably on the trades and industries of the country and the prosperity of its people, or even upon the prices of food-stuffs, an argument, the importance and cogency of which seem to have been magnified in certain matters beyond all proportion. My Committee are of opinion that even such apparent advantages as the saving in home charges and the gains in exchange cannot fall from the heavens, but must ultimately come out of the pockets of the producer, as even, you, Sir, have practically admitted. One of the few points, perhaps the only one of importance on which both the Majority and Minority Reports are agreed, namely, the removal of the embargo on the import of gold into India has in spite of the almost unanimous demand of the country in that behalf, not only not yet been put into effect by the Government, for reasons best known to themselves, but an attempt is being made to perpetuate that restriction as is evident from the gold import bill recently introduced in the Imperial Council.

#### EVILS OF REVERSE DRAFTS.

“The policy of selling Reverse drafts, with all its attendant evils, on the other hand, in spite of the equally unanimous and emphatic demand of the country for its abandonment, has been introduced in the teeth of public opposition and is being persistently continued by the Government, though in the opinion of my Committee and others, the conditions under which even the Majority Report of the Currency Committee recommended such a procedure have not arisen.

Incidentally my Committee would be glad to know the extent and the amount of securities that are to be created *ad hoc* under the new paper currency amendment act; as, for example, if Reverse Bills of the value of £1.

million are sold and realise Rs. 70 lakhs, only for such 70 lakhs or for the whole amount of Rs. 150 lakhs, which the original £1 million for which Reverse Bills were sold, represented.

“It is unnecessary at this time of the day to seriously enter into a discussion on the tremendous loss such a policy has already caused and is daily causing to the country. Commercial opinion, both European and Indian, as far as I am able to see, is unanimous in condemning it as being detrimental to the commercial and industrial interests of this country. I assure you, Sir, that the many telegrams and letters that I have recently ventured to address to your Department on behalf of my Committee are only a feeble echo of the deep indignation and alarm which prevail throughout the country on this point. It is a matter of very extreme regret to my Committee that the views expressed by them on this matter have hitherto been totally ignored by the Government. It had always been the practice of the Government of India in the past to reply to the representations of this Chamber; but my Committee regret to note that recently and all the time that you have been in charge, the Government have only formally acknowledged their letters and telegrams without extending to them the courtesy of an explanation or even a detailed reply. I cannot too strongly emphasise, Sir, the harm done to the interests of the Government and the public, in thus rejecting the co-operation and suggestions offered in all earnestness from time to time by my Committee on behalf of this Chamber. In this connection, I consider it my duty to point out, Sir, that the studied and continued silence of the Government on such important matters is being considerably misunderstood. At the same time, I feel bound to add, on behalf of my Committee, that the line of reasoning adopted by the Government in the Council and in their communiques in defence of this step is not at all convincing. My Committee are unable to understand why the policy of Reverse Councils should at all have been adopted by the Government at a time when every-

thing seems to be in favour of India. They are equally unable to understand the argument of "potential loss" advanced by you in your speech in the Imperial Council and cannot see any reason why by this uncalled-for process the various Indian reserves should be frittered away at such ruinous rates, thus resulting in a dead loss to the country. The entire manner in which these Reverse Councils are being sold and allotted and the inexplicable partiality shown to English and even foreign bankers and merchants to the almost total exclusion of *bona fide* Indian applicants, has also produced feelings of the profoundest regret and indignation throughout the country.

"My Committee have heard it mentioned, both in the Imperial Council and elsewhere, that the criticism of the Indian commercial public, including this chamber, has up to now been of a destructive character, and that constructive alternatives have not been suggested. You will, Sir, permit me to point out that so far as my Committees are concerned such a charge cannot be maintained against them, in view of the many alternative suggestions made by them from time to time in the several representations forwarded by them to your department. All these are available at any time, should the Government or any one else wish to make use of them.

#### ALTERNATIVE SUGGESTIONS.

"Among the most important alternative suggestions made by my Committee, the following are the principals :

(1) That there should be no interference on the part of the Government with the normal course of trade in order to secure natural conditions in Indian Currency and Exchange. This would of course impose an obligation upon the Secretary of State not to sell any Council Bills beyond his own strictly legitimate requirements.

(2) That the Indian Government and railway securities held in England should be mobilized and tendered to India by England in payment of her debt as was done in the case of America with very good results.

(3) That the free import and export of gold should be permitted, in order to allow the trade balance to be naturally adjusted.

(4) That the free import and export of silver should be similarly permitted.

(5) That the old legal ratio of the sovereign to the rupee and the standard unit of 7·5334 grains of fine gold to the rupee be maintained. Any rupees to be issued meanwhile should be issued, if necessary, even at a loss, the same to be debited to the reserves built up from the profits of mintage, or the profits of investments in the Currency Reserves.

(6) That the policy of selling Reverse Bills should be forthwith stopped, until the Exchange falls below this legally established ratio.

"In justification of the several measures adopted by the Government from time to time, they have among other reasons advanced the following three as the most important:—

- (a) The convertibility of the Paper Currency,
- (b) The stability of the Exchange, and
- (c) The prevention of the disappearance of the Indian Silver Currency.

"All these might appear to the ordinary man to be grounds of sufficient importance to justify the revolutionary changes brought about by the action of the Government in the currency and exchange policy of the country. In the opinion of my Committee, however, these objects could have been encompassed, among other methods—

(1) By issuing fresh rupees at the parity of 7·53 grains of gold even at a loss, because the Government have taken profits in coinage in the past; or in the alternative.

(2) By following their own past policy of fixing a rate from time to time in accordance with the price of silver and selling fresh Council Bills only at the prices at and to the extent to which silver could be acquired. In this way, just as we gradually rose with the rise of silver, from 1s. 4d. to 2s. 4d., it would be possible to

go down with silver step by step, until we get back to the old ratio.

"As to the stability of exchange even the Majority Report of the Currency Committee has been forced to admit that it is to be aimed at, more as a convenience than a necessity. If, in spite of this fact, the suggestions that my Committee have ventured to make are still unacceptable on the ground of instability, I hope it will not be considered out of place to say that the methods at present employed by the Government, make and are making for far greater instability and uncertainty, as has been more than amply shown by the experience of the last two months.

#### RECONSIDERATION URGED.

"All these facts are within your knowledge, and I only refer to them now, in the confident hope that these grievances will be immediately redressed. They were recently focussed at a largely attended public meeting held in this city last week, under the auspices of this Chamber. The resolutions, unanimously passed thereat, faithfully reflect public opinion. They have been forwarded before now to the Government of India and the Secretary of State for India; and I beg once again to invite your most serious and urgent attention to them. Public feeling is already excited to the pitch of exasperation; and, broad and wise statesmanship demands, that the entire question of the currency and exchange policy of the Government of India should be reconsidered at an early date in the light of Indian opinion.

"The entire commercial community of India feels that the Government are trying to avoid issues, which are perfectly clear, to the serious disadvantage of this country. It is the deliberate opinion of my Committee that it is as much in the interests of the Government themselves as of this country that decisions on important matters relating to the financial, currency, and exchange



policy of India, should not be arbitrarily taken by the Secretary of State and his Finance Committee or even by the Government of India, by means of ordinances and executive orders, without the concurrence of the Legislative Councils and Indian Commercial opinion."

## THE CONTROVERSY CONTINUED.

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The strong remarks of Mr. Jehangir Petit at the public meeting described earlier brought another letter from Mr. M. de P. Webb. He said he had read that speech with amazement. He questioned the knowledge of the various speakers at the meeting and then made the assertion that broadly speaking India was in exactly the same position as America, that Mr. Petit was simply talking nonsense and that all this talk about "organised loot" and "legalised plunder" was most deplorable and wholly unworthy of Bombay's Parsi citizens who up to the present had had a great reputation for sound currency sense. He then aired his views as to the first function of money. When one remembers that Mr. Webb was Chairman of the Karachi Chamber and also an important witness before the Currency Committee, one can only be surprised at the ignorance of true currency principles, that this reputed expert showed. Mr. Madon answered the points raised by Mr. Webb in the following letter:

TO THE EDITOR OF THE CHRONICLE.

Sir,—In the *Times of India* of the 1st instant Mr. M. de P. Webb rates the Indian Merchants' Chamber for the ignorance he alleges it has shown in its attacks on the currency policy of the Government. But, in doing it, he makes an assertion that clearly shows his entire ignorance of the Gold Exchange Standard which has been imposed on India, and which is so insidious in its bearings that merchants like Mr. Webb and even bankers fail to understand and appreciate them.

Putting aside all the rhetoric of Mr. Webb, I will take his assertion that "India is exactly in the same position

as the United States of America so far as the exchanges with the United Kingdom are concerned." If Mr. Webb really thinks so he shows his entire ignorance of the subject. Here is the test.

The pre-war rate of the United States gold dollar was 4·866 to the sovereign. The pre-war rate of the rupee was 15 to the sovereign. I think Mr. Webb understands that as soon as England is able to resume specie payments, the American rate will go back to 4·866 to the sovereign. Does Mr. Webb think our rate will then also go back to its pre-war normal? If he does, he has failed to appreciate what the Government is now after. If he does not, and yet writes as he has done that we are "in exactly the same position as the United States of America," he is intentionally trying to mislead the public as so many apologists of the Government have done.

We want nothing better than to be put in the same position as the United States of America, and if Mr. Webb is sincere let him join with us in asking that—

(1) we should be allowed to get gold freely in payment as America does ;

(2) we should be allowed to export gold freely in payment of our own dues as America does, and by these two means ;

(3) we should be placed in the same position as America is now occupying in the matter of its exchange with the United Kingdom, so that when American exchange goes back to its pre-war par, ours will go back to its pre-war par too.

Mr. Webb shows similar want of grasp of the true inwardness of Reverse Council sales. We say they are absolutely unnecessary and uncalled for. Here is the test. I hope Mr. Webb understands that Reverse Councils are the equivalent of the export of Gold. Anyway he should now know as Mr. Hailey has been good enough to explain this in the Council. Now I challenge Mr. Webb to show if we are in the same position as America in this matter. Does America, does any other gold country, undertake not only to pay out gold

but also to deliver it at the destination? I know of none. This is an extra duty gratuitously undertaken by the Indian Government on the plea of saving the gold moving charges, but really in order to have the power to manipulate the currency machinery for their own ends. I say let them do as America does. Let the Government give the gold out here on demand, and leave it to the banker or the merchant who may have applied for it to ship it out himself. Government has no business to do the work of shipping agents for exchange bankers. If Mr. Webb is sincere, let him join us in asking that the Government should place us in the same position in the matter of gold exports as America, *i.e.*, give the gold here at the rate of 11.30 grains to the rupee to those that ask for it, and leave them to look after its export.

The extraordinary way in which these sales are conducted is not approved even by Mr. Webb. What the Government is doing is tantamount to selling gold in London at 11.30 grains to the rupee or 16 rupees to the tola. Does Mr. Webb know this? Does he appreciate the true bearings of this action? If his firm was dealing in wheat and holding large stocks, and if the price in Karachi was Rs. 9 per cwt., and yet one of his Managers sold heavily at Rs. 6 in Bombay, what would Mr. Webb say? If this Manager made a heavy loss and paid it out with moneys of Mr. Webb's own firm, what would he say? Would Mr. Webb allow his Bombay Manager to bear the market against his own firm and with the firm's own moneys? The Indian Government is now doing something very similar. It is selling gold in London at Rs. 16 the tola, knowing full well that in Bombay they could get Rs. 22 for it, and they are using India's own resources to make this operation successful.

Mr. Webb thinks the talk of "organised loot" deplorable. Now he knows that the Secretary of State has sold some £23 million of Reverse Bills, a great part of which has been sold at several pence over Government's own rate at the last sale. It has mainly gone into the pockets of bankers and merchant princes

as the Government by asking a margin of 30 to 70 lakhs for a possible allotment of 2 lakhs has taken care that no one else should get these profits. Mr. Webb ought to know that as soon as England resumes specie payments the pound sterling will again be even under the new ratio now adopted equal to Rs. 10 each. Then why this sacrifice? Why are these merchants and bankers given an opportunity of making enormous profits at India's expense? Mr. Bomanji calls it "loot." Will Mr. Webb be good enough to tell me what the right word should be to describe the feast now laid out before our merchant millionaires and our exchange bankers by our benign Government?

I hope Mr. Webb will not in replying try to tell us all about the necessity of these Reverse Bills in general terms. I have indicated the test. Let him apply it, and show that the demand for these bills is genuine.

Yours, etc.,

B. F. MADON.

Meanwhile *The Times of India* had, in a leading article, appealed to the public to assist in the formation of a definite currency policy. This brought forth the following letter from Mr. Bomanji:—

TO THE EDITOR OF THE TIMES OF INDIA.

Sir,—In the leading article in *The Times of India* of the 14th instant an appeal is made to the public to assist in the formulation of a definite currency policy.

The defenders of the Majority Report allege that owing to the Finance Committee of the India Office being out of touch with the market situation, they foolishly launched the majority recommendation at a wrong moment. This argument is untenable, because later on the New York exchange rate after touching 3'20 advanced to 4'05, but the demand for Reverse Councils did not abate. It is no use blaming the fossils on the Finance Committee, but the trouble is that the

Majority Report is fundamentally wrong and is an outrage on currency and exchange principles.

The United States became a free market for gold in June 1919, and the need of raising exchange from 1s. 8d. to 2s. 10d. was absolutely uncalled for and clearly a manipulative operations on the part of the authorities for making India a dumping ground for British manufactures and for evading payment in full of its produce and of its assets which had accumulated in London. On reading the evidence before the Currency Committee I came to the conclusion that the whole affair was merely a put-up job. What justification was there for Sir Marshall Reid, Sir James Brunyate and Mr. Goodenough, who were members of the Finance Committee of the India Office and whose administrative policy was to be inquired into, to sit in judgment on the Currency Committee and give a verdict on their own acts? As Mr. Ewart S. Grogan summarises in his masterly letter in the *Times* of February last, the whole affair must have been a plot to whitewash the Indian Government and the India Office. The bucket of whitewash from the unofficial members of the Currency Committee cannot obliterate the stains of the grave injustice done to the people of India by the autocrats of the India Office and their confederates in this country. The financial administration at the India Office appears to be in dangerous hands and there ought to be a parliamentary investigation on the subject.

Silver is now being sold in London much under 68d. and I say that the time has come to immediately lower the rate of exchange from two shillings gold to 1s. 8d. gold by raising the acquisition rate for imported sovereigns from 10 to 12 rupees. After a period there is little doubt that silver will considerably decline, and the time will come for further lowering the exchange to 1s. 4d.

There is no record in the financial history of the world of a change in the currency law whereby the statutory unit of value is altered so that the relation between the debtor and the creditor is distorted by 50 to

70 per cent. in favour of the creditor. By altering the external ratio of the legal standard for money payments, India is made a dumping ground for Manchester goods at rising sterling prices. The time has come for every member of the Indian Legislative Council to challenge the right of the officials to change the external or internal ratio of the sovereign to the rupee by executive orders. The Gold Import Act has been used in a high-handed and arbitrary manner. Its recent prolongation has only been brought about by forced official majority. If Government wants this objectionable Act to remain on the Statute Book for a few months it can only be for lowering the rate of exchange by raising the rate of imported gold.

The millowners of Bombay are right in protesting against the raising of exchange and when world prices are deflated, many of the industries of India will be ruined and there will be scarcely any outside market for the export of our produce and our manufactures. Unless Government reverses the policy and gradually raise the acquisition rate for imported gold, India, which is a creditor country will presently be a debtor or even an insolvent country. The Secretary of State from next year will perhaps have no funds in London to meet his obligations. Out of approximately one hundred million sterling assets belonging to India, over twenty-five million sterling have been already transferred at heavy loss. Before the end of the present year there will be practically no sterling reserve left in England if the present demand for Reverse Councils continue. Week after week the sterling reserves which have taken a quarter of a century to accumulate and which are credited in our accounts at the rate of Rs. 15 to the sovereign are being squandered at lightning speed at the rate of about Rs. 8 to the pound by the sale of Reverse Council Bills at extravagant rates. The sale of such bills, as the Indian people have over and over again demanded, should be immediately stopped.

Government favours the millionaires by demanding 50 per cent. cash deposit on Reverse Council tenders

and declines to allot if the allotment comes to under £5,000. This transparently unfair dodge, besides causing discontent, acutely disturbs our money market. As if the whole policy of the Reverse Council Bills and the method of allotment were not bad enough, the Government are locking up the Reverse Council application deposits of 50 per cent. for three days of the week at a time. No sane financier with any responsibility would think of introducing such a disastrous innovation. Is the money market of India to be strangled, and are Indian Commerce and Industries to be jeopardised to force on us the exchange policy which has totally broken down? I shall not be surprised if banks and mercantile firms come to grief and if the foundations of our credit system give way. There are indications that if the present suicidal exchange policy is further persevered in, Government will not be able to borrow a single rupee from the market this year and it may eventually drift into bankruptcy as Indian Treasury Bills will not be renewed and cash payments will be demanded for the War Loans maturing this and next year. There are at present over 50 crores of Treasury Bills and the War Bonds that fall due this year are 19 crores, and the next year Government will have to meet War Bonds falling due to the extent of 25 crores. To my mind, the authorities are playing a desperate game to enforce the exchange policy which is bound to fail, and which some of us who have studied it, have all along maintained, was bound to fail. Merchants are unable to get accommodation at present at 10 per cent., and there are people who say that the bank rate will yet go up considerably.

The whole of India protests against the Budget that has been recently published to hood-wink the public. I state with utmost emphasis that if the present disastrous policy is further pursued, there will be heavy deficits next year and there will be a terrible and pressing programme of taxation. I venture to predict that next year the reformed Council of India



will have to put up something like 50 per cent. duty on all imports. There will be no shibboleth of Imperial preference which is a disguised form of saying that Indian products are to be distributed amongst the other members of the Empire at low rates or that the British manufactures are to be dumped into India on a preferential basis. The organised loot of which I have spoken goes on at both ends, and it does not require any great foresight to say how it will affect India. The people of India have already demanded that all losses on our Reserves and on the selling of Indian produce will have to be made good by the British Treasury, and accruing losses will remain as an account current, and will have to be ultimately repaid at compound interest. India is a full member of the League of Nations and is entitled to appeal of other members of the League against the currency policy forced by the Secretary of State in the teeth of strenuous opposition of the Indian people.

I suggest that the present ruinous experiments with our Currency and Exchange should come to an end, and the old rate of 1s. 4d. be worked up to by gradual stages. Meanwhile, all purchases of silver and gold should be made by open tender. The present Currency policy of the Government is now being keenly followed and studied by the Indian people at large, and I warn the responsible officers of Government to beware in time, as the blind faith that Indian people so far had in British sense of justice and fair play is being rudely shaken, and any gain that Britain may seek to make out of our sterling reserves and trade policy will be most dearly purchased.

S. R. BOMANJI.

*Bombay, 15th April 1920.*

Whether as a result of the agitation or for some other occult reason the amount of Reverse Bills offered which was £2,000,000 at the first sale and as much as £5,000,000 at the second and £2,000,000 weekly thereafter was now reduced to £1,000,000 for the sale of the 29th April.

So far the lead in the agitation against the report was taken by the Indian Merchants' Chamber. But now we find the Millowners' Association, through its president taking up the cudgels. The following summary of it by the *Bombay Chronicle* is worth quoting :—

" Mr. Rahimtulla made up for the deficiency of his association by the strength and vigour of his remarks regarding the exchange policy of the Government. The Government made a great point of giving to the Bombay textile industry 4 per cent. preference by not raising the excise duty to the new level of  $7\frac{1}{2}$  per cent. tariff on the imported piecegoods. Mr. Rahimtulla well asks the Government if they do not realise that they have now given a preference of about 80 per cent. to Lancashire goods against the Indian indigenous products. The summary of the main contentions of the Association mentioned by Mr. Rahimtulla is worth reproducing here " :—

- (1) Free import of gold into this country recommended by both the Majority and Minority Reports and asked for by the Association has not been yet secured and the artificial and arbitrary restrictions are still placed on the private imports of gold.
- (2) Enormous loss is being incurred on India's accumulated resources in England by the rate at which Reverse Councils have been sold.
- (3) The high rate of exchange by reducing the volume of prices of exports has reduced the consuming power of the ryots.
- (4) Change in the established standard ratio of Rs. 15 for a sovereign is fraught with the gravest harm.
- (5) Owing to the stringency in the money market consequent on the sale of Reverse Councils there is being withdrawn capital from the country and the export and import trade of the country is being paralysed.
- (6) The manner of selling Reverse Bills was most unsatisfactory both with regard to the rates

at which they were sold and the manner in which tenders were received and allotments made.

It may be said to the credit of the Karachi Chamber that while it supported the new currency policy of the Government it protested very strongly against the way in which Reverse Bills were sold and therefore the following protest of theirs coming as it does from an avowed supporter of the Government deserves to be noted here. In the minutes of a conference they had with Mr. Hailey we find them remarking as follows with reference to the rate based on the American cross rate. They say :

“ This basis, though admirable from a purely theoretical point of view, led to undesirable results in practice. It means that the Government of India were selling pounds sterling every week on terms far more favourable to the public than the public themselves asked for thus encouraging the wildest speculation by rank outsiders who are neither merchants nor bankers. Measured in gold, the paper pound sterling was now at a considerable discount. It would be probably be some years before paper pounds and gold pounds (or sovereigns) again stood at par. It was, therefore, a policy of perfection for the Government of India to attempt at this stage to base Reverse Councils on gold rather than pounds sterling.”

The remedy proposed by the Chamber was competition rates while Mr. Webb personally favoured fixed rate that could be gradually moved up to ultimately be in line with the market rates. It was not long before they had the good sense to see the futility of either and at a special general meeting of that Chamber on the 19th May they

“ Unanimously resolved that continued sale of Reverse Councils, at rates based on gold, serve no useful purpose but merely dissipate the sterling resources of the State. The Chamber therefore urged that no further sales be made above 1s. 11½ d. per rupee

for immediate transfers, and 1s. 11 $\frac{1}{4}$  d. for deferred transfers and that Government should make clear in an announcement that at these rates they will support the rupee with all the resources at their command."

This had already been indicated by Mr. Madon as the only sensible course for the Government even if they were bent upon forcing their new ratio upon the country.



## THE FALL IN SILVER

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The high price of silver and a probability of its continuance for years at \$ 1 per oz. had been put forward by the Currency Committee as an important ground for raising the rupee to 2 shilling gold. However very shortly after the publication of their Report silver began to decline and already in June 1920 (*i.e.*, four months after the publication of the Report) it was in the neighbourhood of 85 cents. This led to the following letter to the Press by Mr. Madon on 15th June 1920:—

Sir,—The Currency Committee's Report in which they recommended the change of India's standard unit is full of specious arguments to justify the wrong they were proposing to do to India and one of the principal arguments on which they have laid great emphasis was the need of saving India from "inconvertibility." They told us that there was an enormous demand for silver, that silver was bound to remain very high for many years that, in any event, it could not fall below \$ 1 per oz. on account of the Pitmann Act, etc., etc., and then told us that therefore only a 2 shilling gold rate could save us.

Hardly has the ink been dry on this Report when all this fine house of cards has fallen to the ground. I have already pointed out on a previous occasion that it was foolish to base our plans on the Pitmann Act as it was likely to share the fate of the Bland and Sherman Acts as soon as the Republican party came to power. But we have not had to wait even for the Republican party. While the regime that passed the Pitmann Act is still in power, we find silver in New York down to 85 cents and the American Treasury trying to get round its obligations under the Pitmann

Act by, as Messrs. Montagu tell us, laying down very stringent regulation as to what silver would be considered as of American origin.

So much for the Pitmann Act and the New York market. What do we see in London? Notwithstanding all the talk of a famine of silver for years, we find silver a drug in the market within six months of the issue of the Report. This was inevitable sooner or later, because the power of China and India to buy silver depended on their continuing to have very favourable balances and their balances would be less less favourable as commodity prices declined. How rapidly the change can occur we have seen in the past two months when in spite of purchases by the Indian bazaar, the silver market has collapsed owing to China turning a seller instead of a buyer.

Now what I wish to ask is this. One of the most important arguments in favour of the change to 2 shillings has fallen to the ground. In fact silver at 45*d.* sterling is really at 36 pence gold. In other words there will again be very considerable profit on the coining of rupees even at the old ratio of Rs. 15 to the sovereign.

This so-called Currency Committee had not a single sound currency argument in favour of the change it proposed. It made the most of the argument of convertibility although its members must have been quite well aware that true convertibility cannot be into tokens. The Government put this most harmful recommendation of the Committee immediately into effect in most indecent haste. Perhaps they were afraid lest something should happen to markets to bring their house of cards to the ground. But, most unfortunately for them both, this collapse in silver has come far quicker than they might have reckoned on. What pretext have they now for continuing the 2 shilling rate? If they were sincere in their professions of anxiety to maintain convertibility, here is their chance. Are they buying any silver for coinage now? If convertibility is so essential they ought to seize this opportunity when China is out of the market.

Also, what are they going to do about the rate for the rupee? Are they going to stick to the new rate? If so why?

One of the funniest conclusions of this wonderful Committee of experts was as follows:—

“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.”

They evidently thought that a standard of value was a thing that could be moved up and down to suit the exigencies of different states of trade. They would never have dared to suggest such a thing for England, but India is evidently fair game for currency experiments. However what I want to emphasise is this. Deflation has begun and will shortly go much further. How is India to rapidly adjust its costs of production to the lower level of prices? Is it by cutting down wages? Does anyone think this feasible? If not, is it not time to cry halt before we proceed further in the direction of the change in our standard unit.

B. F. MADON.

This was followed up by a strong telegram by the Indian Merchants' Chamber in the following terms:—

“The Committee of the Indian Merchants' Chamber very strongly protest against the continuance of the sale of Reverse Councils. The difference between the rate at which bills were sold on the 15th instant and the market was as much as 8 pence per rupee, entailing a loss of over thirty lakhs of rupees on the country in this one sale only. The Committee further point out that the object of supporting exchange, which Government claim to have in view, has altogether failed and there has been a far greater want of stability since the present policy was inaugurated. The Committee further beg to draw Government's attention to the present rate of silver which makes it possible to secure what-

ever silver may be required for coinage and still maintain the old ratio of fifteen rupees to the sovereign. The Committee urge that in altogether changed position of the silver supplies and prices the necessity for any change in India's standard unit of one-fifteenth of the sovereign no longer remains. They therefore urge an immediate revision of Government's present policy and a reversion to the old ratio."



## RATE OF REVERSE BILLS FIXED

AT 1s. 11 $\frac{19}{32}$ d.

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The latest protest of their friends from Karachi seems to have been effective because the Government notified on 21st June 1920 that bills would be hereafter sold only at this rate. It was belated wisdom and the measure came too late to prevent the mischief. Already the sales had dislocated trade and the market rate kept going lower and lower. The policy of continuing the sales was strongly condemned in a leading article of the *Chronicle* which we shall quote here :—

The Government of India cannot be complimented on the arguments put forward in the Finance Department communique which they issued yesterday regarding the sale of Reverse Councils. They learnedly talk of not dissociating the solution of the question from the policy adopted in regard to gold, but this is all mere camouflage as it is evident that the stress of circumstances has compelled them to depart from the absurd policy hitherto followed of fixing the Reverse Bills rate according to the New York cross rate. The rate is hereafter to be 1-11 $\frac{19}{32}$ d., which is much below the parity of the New York rate, and the adoption of this rate is tantamount to the admission that the policy hitherto followed of selling Reverse Bills at the parity of the cross rate was wrong. We welcome even this tardy admission that the policy heretofore followed was mistaken. We welcome this sign of a return to sanity in currency matters though the Government have taken four months to see their mistake, and it has cost the country eighty million rupees even on the basis of 2s. valuation for our sterling securities. Who

will pay this loss? Another indication of a return to sanity is the removal of the restrictions on the import of gold. This step has been urged upon the Government by many important commercial bodies, both European and Indian, and its adoption will place our currency position on natural foundations. But why should the Government insist on the continuance of the restrictions on the export of silver? What good purpose does it serve? Evidently the advisers of the Government do not yet understand their much-belauded gold exchange standard system. For, if they did, they would have removed the restriction on the export of silver without any further delay. They admit that the present weakness of exchange was due to lack of support from the *export* market. They should, therefore, have understood that it was the *export* side of our trade that needed strengthening not the import side; and that India should be helped to export (sell) whatever commodities it had to sell *including silver*.

Again, Government seem to have only now awakened to the existence of illicit imports of sovereigns—and of dollars. They, therefore, declare that after 12th of July next they will not accept sovereigns as the equivalent of Rs. 15. We shall be glad to know how many millions of sovereigns have been tendered to Government at Rs. 15; it could not have been a large amount. We are favoured with the further intimation that a Bill prescribing the new ratio of Rs. 10 to the sovereign is to be introduced into the Legislative Council next September. We sincerely hope and trust every Indian member will consider it his duty to fight it tooth and nail. Perhaps the protest will not be of much avail. The public are aware of the ruthless manner in which the Rowlatt Bill was forced through. The Government may similarly force this Bill through. But that, we trust, will not deter Indian members from showing unmistakably that India is resolved to undo the wrong that Government now contemplate as soon as it is in its power to do so. For the proposed change of India's standard unit is the greatest wrong

the Government can inflict on this country. It will cut at the income of two hundred millions of the masses of this country and unless the mischief is arrested in time it will reduce them to pauperism, if not to the position of serfs. We earnestly appeal to the leaders of the country to wake up to the importance of this question before it is too late. The agricultural population is the backbone of this country and the measure means ruin first to them and then, through them, inevitably to the country in general, as it is on the prosperity of the agricultural population that the prosperity of our trade and industry ultimately depends.

As for the Government they evidently do not yet seem to have been sufficiently warned by the result of past follies and by the loss of the enormous sum of eight crores, a sum that could have done incalculable good to the country if it had been spent on sanitation or education. We are told that the sales of Reverse Bills are to be continued. Why? Government have already thrown away £36 million at ruinous rates. What good has it done to the country? We challenge the Government to show how their muddling has benefitted the country. We shall, of course, be told that the advantage is to accrue in the future—in the 12½ crores of additional saving in the revenues, saving which is not inappropriately described as a "loot" of our producers' hard-earned moneys. But what we challenge the Government to show is the connection between this future benefit and the present dissipation of our sterling resources. Has the sale of Reverse Bills helped to stabilise exchange? Has it not most miserably failed? Has not the policy already cost us eight crores of rupees? Is not this currency lesson already costly enough? Will our Currency office "experts" never learn wisdom? They should by this time have realised the futility of the sales of Reverse Bills. They ought to see that their policy cannot be made effective until our exports revive and bring back the balance of our trade to the right side. Then, and then alone, will Reverse Bills supported by such exports maintain such rates as the Government may

deem right. Until then, these sales are nothing less than a most criminal waste of our resources. The country must bestir itself and rise to the reality of the danger involved not only in the present currency policy of the Government but also in the action they propose to take in September—a danger that, besides depriving the people of the fruits of their present prosperity, spells their ultimate economic ruin.

The remarks of *The Times of India* in this connection are also interesting as even this impartial and friendly critic of the Government is obliged to speak of the systematic plundering and of banks and moneyed interests dipping their hands into the pockets of the Government week by week. Here is what it says in its leading article of the 22nd June :—

“ The instability of the Indian Exchange is mainly, although not entirely, due to the policy which Government adopted on the recommendation of the Committee. At the time when the notification embodying the principal recommendations of the Committee was put in force exchange was weak, but there was no demand for Reverse Councils. The attempt of the authorities to raise exchange by five pence at one step, and then by eight pence to compensate for the fall in the American cross rate, produced just the results which every capable financier with a knowledge of Indian conditions anticipated. It at once checked the export trade and gave a powerful stimulus to imports. It at once set up an artificial demand for sterling remittance, so that capital accumulated during the war might be transferred to London at these halcyon rates. It at once set up a gigantic speculation in exchange. For months past the ordinary operations of commerce and industry have been partially suspended in order that funds might be accumulated to gamble in exchange. The banks and the big moneyed interests have conserved their funds in order to bid at the weekly sales. Last week thirty million sterling were taken off the Bombay money market in tenders for Reverse

Councils. Government have been forced into one degrading expedient after another in order to cope with the illegitimate practices, especially through the Post Offices, which grew up round these transactions. We have called it a gamble but that is the wrong word ; it was the systematic plundering of the Indian exchequer. The Government has stood immovable, whilst these organisations of banks and moneyed interests dipped their hands in its pockets week by week ; any fool with money could make more money when Government sold to the big tenders who monopolised the supply of sterling bills which could be converted the same day into rupees at a profit of from five pence a rupee upwards. True, the Currency Committee could not have expected the reversal of the balance of trade in favour of India through the decline in the buying power of the continent and the financial troubles in Japan, nor the sensational drop in the American cross rate, and the subsequent still more sensational fall in silver. But it was warned by the dissenting member, Mr. Dadiba Dalal, that the Indian export trade could not stand the rate of exchange which it favoured ; the Finance Committee of the India Office ought to have recognised the disturbance caused by the fall in the American cross rate. The discredit for this financial myopia must be shared by those interests in Calcutta, which encouraged Government in its mistaken policy and deluded it with promises of abundant supply of export bills.

“ However the India Office has at last recognised its error, but not until immense losses have been sustained by the Indian finances. The course which it has now allowed the Government of India to pursue is to break away from any present attempt to link the rupee to gold and to link it to sterling at the two-shilling rate. The rate for Reverse Councils henceforth is to be one shilling and eleven pence nineteen-thirty seconds. The rate will be fixed ; it will be independent of the American cross rate ; it will not vary from week to week ; the amount sold will continue to be a million sterling

a week. Now whilst this is a step in the right direction it is impossible to forecast the result. Exchange is still irregular ; the ultimate rate must rest on the balance of trade and the market has been so rudely shaken by the policy pursued since February that it is premature to anticipate the result of this change of front."

Hitherto the new ratio recommended by the Currency Committee had only figured in communiques. The ratio under the law was still 15 to the sovereign. It was now notified that legislation would be introduced at the September session of the Legislative Council with a view to this *The Times of India* in a leading article on the 1st July strongly doubted the wisdom of this and recommended that no legislative action should be taken without further inquiry. This is what it says :

"The Government of India has announced its intention of legislating on the subject of the legal ratio of the rupee to the sovereign. Hitherto all measures consequent on the issue of the Currency Committee's report have been taken by executive action, and there have been few opportunities for studying the policy underlying the Committee's recommendations as a whole. Moreover, certainly on this side of India, attention has been so largely focussed on the effects of the executive action adopted that little serious thought has been given to the major recommendations of the Committee. But if legislation is to be introduced, these major recommendations must be appreciated in all their bearings ; we do not want to see legislative action which may break down as completely as the notifications which the Secretary of State has forced on the Government of India. Now in recommending a two-shilling gold rupee, the Currency Committee had two great ends in view. They desired to establish stability of exchange under an automatic system ; they desired to maintain the convertibility of the note issue. They put aside all the various expedients for maintaining convertibility through lowering the silver content of the rupee or introducing a new and debased coin, and

in this decision the country entirely supports them. They were rather obsessed with the possibility of a continued shortage and therefore high price for silver. They therefore carefully considered what was likely to be the highest permanent price of silver, and for reasons given in paragraph 43 of their report, chiefly associated with the demonetising of the principal silver currencies in the world, they calculated that the Government of India could reckon confidently on purchasing the silver necessary to maintain the convertibility of the rupee at not more than one shilling 11'36 gold, which would make the cost of the rupee, including all charges, two shillings gold. But—for reasons which are exceedingly interesting to all acquainted with the inner history of the working of the Committee—a very important proviso was introduced. The whole basis of the Gold Exchange Standard as applied to India is the maintenance of a balance of trade in favour of India ; it breaks down if there is any continuous adverse balance of trade. In a qualification to paragraph 51 of their report, the Currency Committee said that if there was a rapid fall in world prices, to which the cost of production in India failed equally rapidly to adjust itself, "Indian exports might suffer to an extent which would endanger the maintenance of exchange at the level which we propose. In that case it would be necessary to consider the problem afresh, and take the measures which might be required by the altered circumstances."

Those altered circumstances have arisen, not from the causes which the Currency Committee apprehended, but from quite other forces which have had the same effect. There has been no great fall in world prices, to which the costs of production in India have failed rapidly to adjust themselves, although there has been a drop in the values of some commodities ; but there has been a decline in the buying power of continental countries which before the war were India's best customers, and the absorbing power of the Allies, which filled the gap under the pressure of war conditions, is now no

longer sufficient. Simultaneously there has sprung up a great demand for capital remittance and speculation in exchange, stimulated and fostered by the Government's Reverse Council Bill policy. There is very little support for exchange from the market, nor is any substantial support likely to be forthcoming for some months, unless the character of the season permits a considerable export of wheat. The demand for gold remittance persists, and despite the lowered rate for Reverse Councils, there were £76 millions of applications for the million offered last week. The Government of India has courageously recognised these altered conditions by breaking away from the cardinal recommendation of the Currency Committee to stabilise the rupee at two shillings gold. But is any confidence felt in any informed quarter of the power of the Government to stabilise Exchange at the new ratio of one shilling, eleven pence, nineteen-thirty seconds? Already there is a sufficient gap between the market rate and the Reverse Council Bill rate to justify banks and speculators putting up £76 millions for Reverse Councils in one week. If the gap widens—and there are many signs that it may widen, because of the weakness of the market—Government will have no justification for continuing to sell Reverse Councils at a figure substantially above the market rate for exchange. The Government rate must follow the market rate downwards, assuming the market rate falls, for whatever justification there might have been for trying to stabilise the rupee at two shillings gold, which was a clear and logical if mistaken policy, there can be no justification for trying to stabilise it at a point which bears no definite relation to any standard."

This was followed up by another article on the 13th July in which after pleading for the abandonment of the sales of Reverse Councils which it characterises as "a gigantic ramp for the spoliation of the Treasury" it asks "what should be the next step?" and suggests that "the Government of India should go very slow and should refuse



to commit themselves beyond the immediate needs of the situation and then says :

“There are signs that immense pressure will be brought to bear on the Government of India by the Finance Committee of the India Office to save their faces by legislation altering the monetary standard in India. We press, and in this we have the support of the most important financial and commercial interests in the city, that no further irrettraceable steps shall be taken without the most anxious inquiry.”

The fear that many of the disastrous steps taken by the Government here were due to pressure from Home is again voiced by *The Times of India* in its leader of the 10th August, where it says :

“With the recent renewed fall in the American cross-rate, where would India be now if the rupee were still linked to gold at the two-shilling rate? And finally though silver may be in the dumps and may revive, is there any need to calculate on the high price of the white metal which obsessed the Currency Committee, or is there any ground for the belief that in time of temporary inflation India will be bound to come into the market, when the country is turning so strongly to gold? Surely all these are very strong arguments for a policy of prudent reserve in Currency matters; for the definite abandonment, until the situation is clearer, of short cuts to a stable exchange. If the great business interests will combine in pressing this view on the Government of India, they will be doing a public service, for there are ominous signs that the Finance Committee at Whitehall will bring immense pressure to bring on the Indian authorities to prescribe immediate remedies, instead of leaving the position to adjust itself through the medium of an open exchange and the revival of the export trade.”

These protests went unheeded and the Government coolly proceeded with the proposal to amend the Indian Coinage Act and the Paper Currency Act to suit the 2-shilling ratio.

This brought a further very emphatic protest from the same paper in which after recapitulating the situation it goes on to say:

"The only remedy for these ills is to stop jerry-mandering with exchange by the sale of Reverse Councils, which merely place profits in the pockets of speculators, and tinkering with the established monetary standard, and leave exchange to find its natural level. The Viceroy intimated the intention of introducing legislation to alter the ratio at which the sovereign is legal tender from fifteen rupees to ten rupees, although the market price of sovereigns is now between fourteen and fifteen rupees. We shall await the official justification for this policy, for the authority of the Currency Commission is not worth the paper it is written upon, and especially some forecast of the probable effect of the decision on the demand for gold in India. Without prejudging the issue, on the information before us nothing can justify this decision."

The Bill to amend the Coinage Act was nevertheless brought forward at the Council sittings on 31st August. In introducing the same the Hon'ble Mr. Hailey, the Finance Member, made a long speech which we give in the appendix. This was a studied defence of the whole policy of the Government and was for want of sound argument filled with special pleading. Thus he argued that

"With silver at 43 pence the exchange value of the rupee @ Rs. 15 parity was equal to the bullion value . . . . . silver now stands at 61 pence. I remind the Council again that at Rs. 15 parity the melting point of the silver is 43 pence."

The implication evidently intended to be drawn was that silver was at 18*d.* above the melting point. The Finance Member either did not understand or conveniently overlooked the fact that the 61*d.* was paper money price and was on that day equal to only 45 pence gold and the melting point was 43 pence gold; so that the disparity was not 18 pence but only 2 pence.

Then he turned to the argument of high prices and said:

"We should unhesitatingly ask for the adoption of any device which could help to secure us against a further increase, and the case would be strengthened by the knowledge that such an increase would not be normal or justified by Indian conditions. It would be due purely to the fact that we were linked up with a depreciated currency."

This coming from the Finance Member at the moment that he held the Coinage Act in his hands was most surprising, because that Act linked the rupee not to the depreciated pound sterling, but to the gold sovereign. He further did not tell us why England which was suffering far more severely than India from the effects of high prices did not resort to this beautifully simple remedy for reducing high prices there by making the pound equal to 12 or 15 shillings instead of 20 that it was at present.

Another misleading statement that the Finance Member made was

"Gold in India stands to-day at a premium just as it stands at a premium in Europe, and we shall not be able to issue sovereigns until that premium disappears."

This again was a surprising statement to come from the Finance Member, because when he was speaking, gold was quoted in the bazaar at about 23½ rupees a tola and the pre-war price was 24 rupees a tola, so that gold was not at a premium in India but at a discount.

The whole speech is full of such fallacies to bolster up the wrong headed policy that the Government had been so obstinately pursuing.

Sir Fazulbhoy Currimbhoy, who had opposed the new currency policy of the Government at the Council meetings in the spring, had now resigned, as he was asked to represent Indian interests at the Brussel's Conference. To fill up the vacancy the Government nominated Mr. R. D. Tata of the firm of Tata Sons that is so closely identified with industrial development in Western India, although by no means a hostile critic of the Government. Mr. Tata felt compelled

to protest most strongly against the change of ratio being made irrevocable by the proposed amendment of the Coinage Act and strongly urged the postponement of the measure for at least six months. We give his speech here.

"My Lord, I rise with your permission to move an amendment for the postponement of this Bill.

"The draft Bill was made public on Saturday and we are asked to pass it in three days. It is a Bill, my Lord, fraught with very great financial danger to India, in fact it touches its very financial life. To rush a Bill of such importance, in spite of Indian protests and without giving time to commercial and other public bodies to express their opinion on the same is very impolitic.

"I beg to draw attention to the telegram from the Indian Merchants' Chamber and Bureau, a most representative body of Indian Commercial opinion on the Western side of India. They say :

'The Committee of the Indian Merchants' Chamber strongly protest against continuance of sale of Reverse Bills as the net amount of about fifty-five million sterling sold to date has failed to achieve the objects desired by Government of stabilising exchange at two-shilling gold and any addition to the immense loss already caused to the country would be unthinkable. My Committee strongly urge Government to publish the Indian Coinage Act Amendment Bill and the Paper Currency Amendment Bill for consideration and opinion of the commercial community and pray Government not to proceed with the measures until the whole country has had an opportunity of expressing its views.

They are further of opinion that all currency legislation should be deferred for at least one year as conditions are still too abnormal and unsettled to justify any definite action. Any such Bills carried by official majority will cause the greatest discontent in the country.'

"What do they want? They do not ask for a withdrawal of the Bill, but only for postponement until the whole country has had an opportunity of expressing its views.

Surely, this request is reasonable in a matter so vitally affecting the commercial and economic future of India. It is what the Chairman of the Bank of Bombay has also been asking in the matter of the Paper Currency Amendment Bill, which Bill will also have to deal with the new ratio of the rupee and the other recommendations of the Currency Committee.

"I therefore propose that the draft Bill be circulated to all the important bodies, and their opinion and criticism invited before proceeding with it further. Many prominent Indian members are absent from this Chamber, and will not be able to place their views before Government.

"In the Statement of Objects and Reasons it is said that it is proposed, as recommended by Currency Committee, to make the sovereign legal tender at the rate of Rs. 10 to the sovereign instead of Rs. 15.

"I do not wish at this stage to go deep into the merits of the question and the arguments on this measure, but I would be failing in my duty to this country if I let this simple and innocent-looking measure pass without warning the Government that what they are now doing may cause a very severe financial crisis, and bring the masses of this country to the verge of starvation.

"The Government is doing this at the recommendation of the Currency Committee. No other reason for this hurried and precipitate measure is advanced. What was this Committee's composition? Although the question of exchange and currency mainly affected India, the Government ignored India altogether, and appointed a Committee 5,000 miles away, composed of only one Indian, the rest being Englishmen mostly connected with London financial interests which are more often than not at variance with ours. The Committee throughout appeared to be obsessed with the idea that the price of silver and the prices of commodities were going to stay for many years to come as high as they were when it drafted its report. Silver had then been fast rising and had gone as high as 89 pence sterling, but only a couple of months ago it was down to 44 pence and even to-day is about 61 pence. This price is expressed in sterling. If we correct it to gold on the

basis of the latest New York-London cross rate, it works out to less than 45 pence gold even to-day.

"Now I would like to ask the Finance Member a question. Would the Currency Committee have fixed the 2-shilling gold rate for the rupee, if silver had gone down to 44 pence sterling (say 36 pence gold at the cross rate of the time) during their deliberations, as it did only a few months after? Surely not, however much they might have wished to recommend a very high rate.

"We now find that the only Indian on the Committee Mr. Dadiba Dalal was the only member who was right and the only member who had been able to correctly foresee the trend of silver prices. Now that experience has proved that his conclusions and the remedies he proposed were far sounder than those of the Majority Report. I cannot help wondering why the Government should so completely ignore them, and should decide—and compel the whole of India to follow—the Majority Report's conclusions and recommendations that have already been so thoroughly discredited by events. If the Government really wanted to solve the Indian Currency and coinage difficulties, they ought to have appointed a commission in India, of whom at least one-half should have been Indians and not this hole-and-corner Committee which has already been discredited by Indian opinion.

"The *Times of India*, in a leading article in its issue of the 23rd instant reverting to the present deadlock in the export trade, says:

'Is there not another side of the question? Is there not a corresponding obligation on the part of Government to see that their currency policy is one which does not obstruct the recovery of export trade, nor artificially inflate imports? Since February the policy of Government has not satisfied this *desiderata*. There cannot be the slightest doubt that the misguided attempt to raise exchange at a bound to two shilling gold, with the tremendous fluctuations which it induced, struck a deadly blow at the export trade at a moment when it was feeling the effect of the European malaise. There cannot be the slightest doubt that

the succeeding eccentricities have severely handicapped every branch of the export trade. The only remedy for these ills is to stop jerrymandering with exchange by the sale of Reverse Councils, which merely place profits in the pockets of speculators and tinkering with the established monetary standard and leave exchange to find its natural level. The Viceroy intimated the intention of introducing legislation to alter the ratio at which the sovereign is legal tender from 15 rupees to 10 rupees although the market price of sovereigns is now between 14 and 15 rupees. We shall await the official justification for this policy for the authority of the Currency Committee is not worth the paper it is written on.'

"My Lord, I cannot put the case more strongly than that.

"Even the gentleman who drafted the Majority Report obviously felt doubtful on their grounds, because in one of their conclusions they say—

'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 price, then it might be necessary to consider the problem afresh.'

"My Lord, world prices are already falling. What concerns us most in this country is the price we can obtain for our own income crops which have now fallen to very low if not unremunerative levels for cotton, jute, tea, hides, etc., and we cannot say that we have yet touched the lowest level. If this fall continues, serious distress may be anticipated when the ryot finds he cannot obtain a price to cover the cost of production. When such is the state of things, is it not clear that it is time to consider the problem afresh?

"You propose to make the sovereign legal tender at 10 rupees. How do you propose to make it effective? Will you give a sovereign in exchange for Rs. 10? I suppose not. Gold is to-day at 23½ rupees to the tola, while if the sovereign is to be equal to 10 rupees, gold should sell

at Rs. 15-14-10 per tola. How are you going to bridge over the difference of Rs. 7½ or 33 per cent. In the announcement of the Secretary of State on the report of the Currency Committee, he says—

‘The lower ratio cannot be effectively introduced while a great disparity continues to exist between the commercial price of gold in India and the intended Mint par of one sovereign for Rs. 10.’

“This disparity exists even to-day. Then, where is the justification or the necessity for passing this Bill now? Does Government intend to take any steps to reduce the price of gold by Rs. 7½ a tola other than selling gold in the open market? All their sales of many millions of tolas have failed to have any effect. I see only one way in which they can lower the price of gold, and that is by bringing on such a serious monetary stringency that a terrible financial and economic crisis would develop all over India, and the people be compelled instead of buying more gold, to sell their most valued possessions in the shape of ornaments.

“If that is the idea of Government, does Government calculate the results? Does it appreciate the ruin it will entail on the commerce and industry of India?

“I would next ask—how about the masses? Has Government reflected on the effect of the change of ratio on the income of the vast mass of the agricultural population of India, a population extremely poor and deeply submerged in debt? Every ten sovereign's worth of produce exported would, under the old ratio, have produced 150 rupees, and will, if the new ratio is made effective, only produce 100 rupees. His dues to the Government and to the Sowcar will remain the same in rupees. The surplus left to him after meeting these liabilities was meagre enough in even the old days. Under the new ratio it is likely to go to a vanishing point. I know the Committee argued that world prices would remain so high that even at the new ratio the producer will not suffer. Their complacency in this respect has been entirely falsified by events within a few months of the publication of their report. Is it right to force the new ratio through in spite of these facts?



" We are told that what the cultivator loses as producer he will gain as consumer by the cheaper cost of imported goods. I have been at some pains to look into and analyse the trade figures for the past year and I find that while the exports totalled 309 crores, the imports totalled only 208 crores, of which only some 12 crores can at most be considered to be goods more or less consumed by producing classes so that while they lose on 309 crores of exports, they benefit only on some 12 crores of imports. I am firmly convinced that the result will be to rapidly further impoverish our already poor producing classes.

" Part and parcel of the unfortunate policy now being pursued is the sales of Reverse Bills. Currency is being rapidly contracted, and the defence of deflation is set up. Even to-day our metallic backing is 58 per cent. of the note issue. If you want to make the position stronger, the right way is to use the proceeds of our sterling assets in London to procure gold, and to put this gold into our paper currency reserve to stiffen the backing still further. Why do we give it away to speculators and then claim that the note-issue is over-expanded and that deflation is necessary? Here we have contracted circulation by 25 crores in the short space of eight months, while England that has made use of the printing press, and where the remedy of deflation is really called for, is walking much more warily. The following weighty words of Mr. Goodenough, Chairman of Barclay's Bank, while a warning to financiers in his own country, might with good profit be pondered over by our Finance Department here. He says—

' There is a stringency in the money market greater than usual at this time of year. There is a scarcity of credit which begins to threaten our manufactures and trade and that being so, the attempt to carry the process of deflation further, and to proceed with great rapidity, would be dangerous to the money market, and prejudicial to our output.'

" Now, my Lord, I make a personal and friendly appeal to the Hon'ble the Finance Minister not to persist in rushing the Bill through the Council in defiance of the opinion of

the Indian commercial community, against the well considered opinion and advice of the only Indian Member of the Currency Committee, whose opinion and conclusions have been so fully justified by events, and in spite of the fact that gold still stands in the open market to-day at over Rs. 23 to the tola.

"What was wanted is not a withdrawal of the Bill, but only postponement to the next session, so that it may be then more suitably dealt with in the light of better knowledge of the economic factors that bear on the question, and in the light of the opinion of public bodies that may then be available to the Council.

"I submit, my Lord, that in the present state of the country, and considering the fact that when this Council re-opens after the present session, India will have made the first real advance towards self-Government, it is neither politic nor statesman-like to force through legislation which is contentious and opposed to the wishes of large and important classes of the people.

"I therefore beg to move that the consideration of the motion for leave to introduce a Bill further to amend the Indian Coinage Act, 1906, be deferred till the first session of the Reformed Councils."

The Government evidently did not care to risk bringing the Bill before the Reformed Legislative Councils that would come into being early in 1921, and declined to agree to the postponement and the amendments to both the Coinage Act and the Paper Currency Act were put through, but as we know they have remained a dead letter ever since as exchange has continued to decline in spite of all the Government could do to prevent it. They had already put the country to an immense loss in trying to bolster up their policy. What that loss was could be seen from some figures that Government supplied at the Council meeting on 16th September in reply to Mr. Tata's questions. From this it appeared that

£ 45 million had been sold between 1st February and 31st August 1920 and in addition £ 3 million has been sold only upto the end of June 1920 in the shape of Post Office money orders. Out of these £ 40½ million were from the

Paper Currency reserve and the rest from the balances of the Secretary of State. On the 40½ million alone the difference between the book value and the proceeds realized here was given as a 23½ crores. The difference for the other 7½ million was not given, but we could easily figure it out on the same bases and we shall find that a further 3½ crores would represent the difference in the case of these other £ 7½ millions, so that the total loss on these Reverse Bills operations in only seven months had come to the tremendous sum of

27½ crores of rupees.

This did not deter the Government in the least, because in reply to a further question by Mr. Tata as to whether the Government still proposed to continue these sales. The reply was that

“Government could not make at the present moment an announcement as to the continuance of such sales.”

Evidently these disastrous sales had been kept up to bolster up exchange until the new ratio could be put on the Statute Book, because almost immediately after, *i.e.*, at the end of September it was announced that the weekly offer of sterling drafts on London would be withdrawn until further notice. To save their face they reserved the right of resuming these sales when it appeared expedient. The most curious part of this communique was the following:—

“An opportunity of reconsidering the whole question had presented itself on the passing into law at the recent session of the Legislative Council of the Indian Coinage Act rating the sovereign at Rs. 10 and the Government of India have accordingly with the approval of the Secretary of State decided, etc., etc.”

It is clear from the above that the India Office authorities permitted the Indian Government to suspend the sales now that they had achieved their object of putting the rupee at 2 shilling confirmed by legislation.

As might have been expected there were very strong protests from those import merchants and others who had

failed to cover their exchange, and in reply to a very strong protest from the Bengal Chamber of Commerce urging resumption of the sales of the Reverse Bills, which protest was supported by the other European Chambers of Commerce, the Government said :

“ They had no intention of resuming the sales of Reverse Councils or of gold, and that in reference to enquiry made by the Chamber whether it was the intention of Government to jettison the recommendations of the Currency Committee the Chamber was referred to the speech of the Finance Member on the introduction of the Bill to amend the Coinage Act.”

The inference to be drawn from the above reply was that Government adhered to the policy indicated in that speech of making the recommendations of the Currency Committee effective. Mr. Madon in a letter to the Press asked

“ I wonder if the Finance Department understands what it is talking about. Does it appreciate what the Committee's recommendations would mean ?” A rate of 35 pence to-day against a market rate of only .19 pence.

In other words the Committee's rate would be 80 per cent. over current market rate. What right have Government artificially to create such an economic upheaval as this change would imply ?”

This point has remained unanswered so far. Meanwhile Mr. Montagu, in reply to a question in the House of Commons from Lieutenant-Colonel Burgoyne who urged a reconsideration of the recommendations of the Majority Report, said that

“ the present policy was adopted after full inquiry less than a year ago, and in view of the abnormal factors mentioned by him, he did not think that a further review was now called for.”

This showed the determination of the India Office to stick to the new ratio at all costs in spite of the great fall

in commodity prices and in silver and the agitation in India which had so far been carried on by the Indian Commercial community now assumed the aspect of an important political issue, and an important resolution on the currency question was brought forward by Mr. Bomanji at the National Congress at Nagpore on the 1st of January 1921.

Mr. Bomanji moved:

"Whereas His Majesty's Government of India, by bringing about an unprecedented rise in Indian sterling exchange and issuing Reverse Councils in wanton disregard of Indian opinion as expressed in the Minority Report of the Currency Committee to the enormous and serious loss to the Indian export trade, have pursued a ruinous policy conceived in the interests of British manufactures with the result that Indian trade and commerce have been entirely unsettled and dislocated while the British Treasury has been relieved of a substantial part of its indebtedness to India and British capitalists and manufacturers have been given enormous opportunities for dumping into this country goods which could not find their old markets in Germany and other countries, this Congress calls upon the British Treasury to make good this loss and further declares that importers, merchants and dealers of British goods will be entirely justified in refusing to complete their contracts at the present rates of exchange. Further, this Congress appoints a committee to be named by the All-India Congress Committee to take steps to deal effectively with the situation."

In moving this resolution Mr. Bomanji made a powerful speech and was seconded and supported by Mr. C. R. Das and Mr. Narandas Purshotamdas of Bombay. A brief report of the proceedings is given here from *The Time of India* of the 3rd January 1921:—

"Mr. Bomanji said that reverse council bills were the cleverest piece of currency manipulation which they had ever known. The Congress had been complaining about

political wrongs and iniquities, and he would ask them to bear in mind that if ever the true history of the British connection with India was written, the economic wrong and injustice and spoliation would be found to be the worst chapter in the annals of British history. This exploitation had been going on since the days of the East India Company. At the end of the war, England was faced with the question of finding markets for their manufactures. India was the biggest importer of manufactured goods. It was found that Germany had no financial capacity to pay for English goods, and England cast her eyes to the East. The only market they could turn to was India. Great Britain owed a great debt to India by way of accumulated reserves kept in England, and they were put under the necessity of having to wipe this debt out and also to find a market for her surplus goods that had been going to Germany before the war. When the Currency Commission was appointed they had already made up their minds as to what to do, and the commission only confirmed what had been already resolved upon, and hit upon a most mischievous retrograde measure of successively raising the sterling exchange to pay off the debt of India by selling reverse councils of 55 million sterling. The debt to India had been paid at from Rs. 10 to Rs. 7-8 instead of Rs. 15 to the sovereign. India had lost £25,000,000 on that one transaction. There was also a loss to her trade. The manipulation of the currency he called "Organised loot" and "Legalised plunder". Mr. Dalal's minority report had proved to be a cry in the wilderness. By the manipulation of the currency a deception and fraud had been practised on the people of India with regard to trade. On account of this exchange position they were face to face with a dislocated trade, disturbed money markets, and practical bankruptcy in the country. This country had been converted to a debtor country instead of creditor. The docks of Calcutta, Bombay and other places were full of goods, which the merchants could not take over and which had been ordered on the basis of two shillings in the rupee. When the goods arrived in India exchange came back to

rs. 6d. in the rupee. This loss to the Indian merchants and traders was due entirely to the policy of Government. Merchants would therefore be justified in breaking their contract, as they had been deceived and defrauded by the Currency Commission's pronouncement. But for that deception the people would never have ordered goods; the British treasury should therefore make good the loss to India. The economic and financial wrong to India was far more than the political wrong that had been done to them. That was the reason why 25 per cent. of the Indian population were starving and could not get a square meal a day. India had been taught about the loot of the Moghuls and Mohamedans, but that was nothing compared to the organised loot and legalised plunder that was going under British rule from day after day and year after year. (Cries of "Shame.") Were they surprised in these circumstances that India, one of the richest countries had not suffered from the loot by Nadirshah to the same extent as they did to-day?

Mr. C. R. Das, while endorsing Mr. Bomanji's views, said they were plundered in two ways by the Government: firstly, by wiping away the debt owed to India; and secondly, by inducing merchants through deception to order goods at two shillings rates.

Mr. Narain Das Purshotam, supporting the resolution said that on the one hand India was paying fourteen rupees sterling for foreign goods on the other she was being paid rupees seven to ten to every pound sterling for her goods and for the payment of England's debts to her.

The resolution was put and carried."

With this resolution of the Congress, the Currency Question has become a national question instead of a matter that merely interested a handful of merchants. The controversy has now entered on a new phase which it is too early yet to attempt to put on record here. So we shall close this work by briefly summarising the position as it stood at the commencement of the year 1921.

## CONCLUSION.

The position at the beginning of 1921 was that—

1. Reverse Councils were sold to the extent of £55 million.

2. Several additional millions had been sold through the Post Office.

3. Some 35-40 crores of loss has been incurred on the above.

4. Additional loss has been incurred on the sales of gold at cheap rates in attempts to depress the local market for gold and thereby prepare the way for the new ratio of 10 to the sovereign. No official figures of such loss are yet available.

5. Government first insisted that their rate based on gold was the correct rate and sold Reverse Bills as high as 2s. 11d. Then they based themselves on 2s. sterling and finally abandoned all attempts to support the rate and market has dipped as low as 1s. 2½d.

6. Importers based themselves on the Government's rate and ordered out goods that at such rate looked cheap in rupees and now refused to meet drafts except at Government rate of 2s.

7. Very heavy losses are thereby being incurred by the Commercial community of this country over and above the enormous amount lost by Government through its own gold and Reverse Bills operations.

The problem before the country is how to bring the consequences home to the men who were responsible for it and what to do to avoid a recurrence of similar disastrous operation in the future. That they will recur (unless effective precautions are now taken) is certain because in his speech introducing the budget for 1921-22 the Finance Member has made the following most extraordinary statement. He said (para.43)



"When we return to a more normal state of affairs, there must be a balance of trade in India's favour and unless that balance be satisfied by the sale of Council Bills exchange must rise. *Then and not till then will in our opinion be the psychological moment to make full use of our sterling reserves.*"

The italics are ours. If above means anything it means that Government proposes to again sell Reverse Bills when exchange is not falling and weak but rising and strong. They evidently mean to make a bonfire of another 20-30 crores of rupees, to upset trade for another few months or years and to bring ruin to other and a much wider circle of people in this country in a mad attempt to establish their 2s. rate. The country must see to it that no such attempts are made in the future. The country must also insist on knowing who are the men behind the scenes that have been really responsible for all these disasters. There is in this connection a most significant passage in the Budget speech above referred to. The Finance member said (para. 7)—

"We have frequently been asked to explain how far the persistence in the selling of Reverse Councils on the system first adopted was due to our deliberate choice or *how far the responsibility lay with the Home Authorities . . . . . I regret that it is not within the power of Government to answer these inquiries.*"

Why this concealment? The country has a right to know whose advice it was that led the Secretary of State into this disastrous course. It has a right to insist that our future currency policy should no longer be subject to the control and guidance of men that have so egregiously failed and have put the country to such enormous losses. It is now pleaded in defence that India's position is not unique and that similar upsetting of trade and of exchange has occurred all over the world. This defence is deliberately misleading and conceals the important fact that in no other country has its pre-war standard unit been changed and that in no other country has a similar attempt been made to put exchange up by artificial means. It will be seen from the earlier parts of this book that the strongest possible protests were by the Indian Commercial

community against the Government action and such protests were registered immediately upon the announcement of the policy. To-day after an egregious failure after tremendous losses the Government say they must allow things to take their course and wait for a natural recovery of India's balance of trade. It will be seen that this was pointed out to them at a very early stage and they went on in contemptuous defiance of all such protests. The country must not therefore, be beguiled by talk of other countries being in a similar position, but must see that the culprits whoever and wherever they are are brought to book.

It has been shown in the earlier part of this book that the Currency Committee's arguments recommending the new ratio were all false and misleading. The country must see that steps are immediately taken to revert to our pre-war standard unit of 15 to the sovereign and that the amendments made in the Coinage and Paper Currency Acts are immediately repealed.

## APPENDIX I.

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### MINORITY REPORT OF MR. DADIBA DALAL.

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#### *Recommendation.*

Mr. Dadiba Merwanji Dalal writes a Minority Report in which he says :—

1. I regret that the divergence of opinion between my colleagues on the Committee and myself on vital currency principles is so great as to render it impossible for me to concur with the views of the majority.

2. The tragedy of the great war in its world-wide effects has dealt very unequally with different countries. To India as a whole it brought a period of great economic prosperity, because India was able to supply produce and material which were urgently required in connection with the prosecution of the war, besides a full active part in the conflict. Notwithstanding this prosperity, which might have been expected to increase her financial strength, India has been called upon to face a veritable revolution in her currency arrangements which must cause widespread and lasting hardship amongst the masses of the people of India.

3. This revolution has been brought about by the executive action of the authorities by means of raising the sterling rate of exchange. The only occasion on which this Committee were consulted regarding the changes made was when the rate was altered from 2s.

to 2s. 2d. Against this alteration I felt it to be my duty to protest.

4. The rate of exchange was raised by stages from the normal rate of 1s. 4d. to 2s. 4d., and the reason assigned was that, owing to the rise in the price of silver, the bullion value of the rupee was above the rate fixed from time to time in relation to sterling. But that reason cannot be held to be the sole reason, since even if the price of silver should fall, the intention is to maintain the rate of exchange at a much higher level than 1s. 4d.

5. I cannot acquiesce in the great change in the money arrangements of India which must accompany this alteration in the rate of exchange. The legally established money standard is the sovereign, with rupees definitely related thereto at the rate of 15 to 1. That standard ratio has been broken by the raising of the rate of exchange, and I hold that it is vitally important that that ratio should be maintained.

6. In my opinion the reason given for raising the rate of exchange is altogether inadequate. The rise in the price of silver could have been prevented by removing the embargo on exports of silver from India after the war had ended, and it was after the war that the greater part of the rise in exchange was brought into force. India could easily have spared silver for export; such exports would have been profitable to her, and they would have prevented the great rise in the price of silver upon which so much has been made to depend through the raising of the rate of exchange. It was chiefly because the export of silver from India was prohibited, and because India was made a potential buyer instead of a seller, that the silver markets were inflamed and the price was raised.

7. Even if silver exports from India were not considered desirable there was still no occasion for raising the rate of exchange after the war because of the rise in the price of silver. It would only have been necessary

to stop the sale of rupee bills by Government in excess of their own Treasury requirements and leave the balance of trade to be adjusted by other means than silver.

#### THE PAPER CURRENCY.

8. There was one important obstacle to the removal of the embargo on silver exports. The paper currency had been heavily watered by the issue of notes not backed by coin but by British Treasury bills held in London. As a war measure and a temporary expedient to meet the difficulties of the time this might have been excused. After the war, however, this temporary expedient had the effect of blocking the removal of the embargo on silver exports by providing the only strong reason for retaining it, namely, the protection of the paper currency coin reserves against withdrawals of silver for export. This temporary expedient, therefore, turned to the permanent disadvantage of India when it provided a reason for retaining the embargo. But the necessity for protecting in this way the paper currency coin reserves was due to the very artificial conditions created by the extensive watering of the note issue, and consequently the need for the embargo was artificial.

9. As long as a world-wide embargo on gold exports existed a rise to some extent in the rate of exchange could not, perhaps, be temporarily avoided; but when the United States became a free market for gold on the 9th June 1919, and the gold production of South Africa became available to the highest bidders in London from the 18th July 1919, the need for further raising the exchange rate from 1s. 8d. by four stages to 2s. 4d. was absolutely uncalled for.

10. These new currency arrangements must, if continued, have disastrous consequences to India and to the people of India. They must seriously disturb the relations existing between creditor and debtor. They will cause dislocation and a set-back to several Indian

industries and vast continuous losses on the exports of Indian produce. There is a danger of India's balance trade of turning against her and so checking her prosperity. And it should be remembered that between 100 and 200 millions of people live on the brink of starvation, and a great permanent change in the rate of exchange must ultimately bring intense distress to millions of the helpless masses. A fixed high level of exchange must also cause enormous losses in the rupee value of the invested reserves in sterling securities and of gold held as part of the metallic reserves against the note issue. It will also cause a colossal loss if the sovereigns now held by the Indian public, estimated to amount to about 50,000,000, have to be redeemed at the statutory rate of 15 rupees to the sovereign.

11. In my opinion the gold exchange standard as applied to India is entirely discredited as a currency system intended to meet Indian conditions. I make every allowance for the difficulties which it had to contend with during and since the war, but the raising of the rate of exchange after the war was wholly unnecessary. The people of India have strong objections to the purchase of silver at the present inflated and thoroughly artificial price.

#### REMEDIES.

12. I discuss in detail below these and other points referred to the Committee, and now state here the recommendations I desire to make :—

(a) The money standard in India should remain unaltered ; that is, the standard of the sovereign and gold mohurs with rupees related thereto at the ratio of 15 to 1.

(b) Free and unfettered imports and exports by the public of gold bullion and gold coins.

(c) Free and unfettered imports and exports by the public of silver bullion and silver coins.

(d) The gold mint at Bombay to be continued and to receive gold bullion from the public and to coin free of charge gold mohurs of the same exact weight and fineness as the sovereign and to hand them over to the tenderers of gold bullion in less than 15 days.

(e) The Bombay mint to undertake refining of raw gold for the public and not to make any profit on the transaction.

(f) The existing silver rupees of 165 grains of fine silver at present in circulation to continue full legal tender.

(g) As long as the price of silver in New York is over 92 cents, Government should not manufacture silver rupees containing 165 grains fine silver.

(h) As long as the price of silver is over 92 cents, Government should coin 2 rupee silver coins of reduced fineness compared with that of the present silver rupee and the same to be unlimited legal tender.

(i) Government to coin a new 8-anna silver piece of reduced fineness and the same to be unlimited legal tender.

(j) Government not to coin an 8-anna nickel piece.

(k) Government to sell Council bills by competitive tenders for the amount defined in the Budget as required to be remitted to the Secretary of State. The Budget estimate to show under separate headings the amount of Council bills drawn for Home Charges, for Capital Outlay and Discharge of Debt. Council bills to be sold for Government requirements only and not for trade purposes, except for the purpose mentioned in the next succeeding recommendation.

(l) "Reverse" drafts on London to be sold only at 1s.  $\frac{2}{3}$  d. The proceeds of "Reverse" drafts to be kept apart from all other Government funds and not to be utilised for any purpose except to meet drafts drawn by the Secretary of State at a rate not below 1s.  $4\frac{1}{3}$  d. per rupee.

(m) Currency notes should be printed in India.

(n) Government not to interfere with the immemorial practice of the Indian public of melting current coins.

(o) The sterling investments held against the Indian note issue to be liquidated as early as possible and transmitted to India in gold.

(p) The use of one rupee currency notes to be discontinued as early as possible and meanwhile not to be forced into circulation.

13. The Terms of Reference to the Committee were as follows :—

“ 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 or practice may be required to make recommendations as to such modifications, and generally as to the policy that should be pursued with a view to meeting the requirements of trade, to maintain a satisfactory monetary circulation, and to ensuring a stable gold exchange standard.”

#### RUPEES AND THE SOVEREIGN.

14. The outstanding effect on the Indian exchange and currency system has been that the system has broken down at a time when India enjoyed a large measure of prosperity as displayed by the foreign trade returns. The undertaking by the authorities to supply rupees without limit of amount at the rate of fifteen to the sovereign could not be maintained owing to the rise in the price of silver which made it impossible to supply fresh rupees (containing 165 grains of fine silver) at that ratio without loss. In consequence of this rise in the price of silver the standard ratio of rupees to the sovereign was given up, the sterling rate of exchange for the rupee was raised by stages to 2s. 4d., and the Secretary of State for India is now selling rupee bills at that rate which makes the present relationship of the rupee to the sovereign in working practice 11 to 1.



15. It is true that the main object which the authorities kept before themselves in working the system was to maintain the exchange value of the token rupee in meeting foreign payments. In the words of the Chamberlain Commission the "cardinal feature" of the system was "absolute security for the convertibility into sterling of so much of the internal currency as may at any moment be required for the settlement of India's *external* obligations." But whatever object the authorities had in view in working the system, this cannot alter the fundamental fact that the Indian currency was founded on the sovereign (a full value gold coin) as the money standard with rupees (token silver coins) definitely related to the sovereign at the rate of 15 to 1, and if it is impossible to maintain this ratio between the sovereign and rupees I consider that the system has failed in its most important part.

16. In support of this opinion it is necessary to recall the alterations made in the Indian currency arrangements in 1893. Up to that time India had a silver standard with mints open to the free coinage of silver. The mints were then closed and the silver standard was given up. The silver standard was replaced a few years later by the standard of the sovereign, sovereigns and half-sovereigns being made legal tender for 15 and 7½ rupees respectively, rupees being thus definitely connected with the sovereign at the ratio of 15 to 1 and also remaining full legal tender.

#### THE MONEY STANDARD.

17. There has been a difference of opinion as to the effect of these alterations in the currency arrangements. According to information placed before the Committee they have sometimes been described as having placed India on a gold standard, while, on the other hand, some authorities prefer to describe the Indian standard of value as a gold exchange standard since the effectiveness of the arrangements largely depended in practice on the

action of the Secretary of State and the Government of India in selling or exchanging rupees for gold or sterling and sterling for rupees. But whether the standard is called a gold standard or a gold exchange standard, the alterations referred to could have no meaning except on the hypothesis that the money standard had been changed from a silver standard to the standard of the sovereign and that rupees were in effect made a fixed fraction of the sovereign. I cannot conceive that the mere title by which the standard is described or any mere arrangements followed in working practice, can admit of any alteration of the ratio legally established between the rupee and the sovereign.

18. It seems to me to be impossible to exaggerate the importance of the legal standard for money payments. This standard should be and usually is regarded as less open to repeal or modification than perhaps any other legislative Act. It gives the people rights as to the kind of money they may demand in exchange for their labour or goods, rights which cannot be removed or modified without inflicting widespread injury and risking the greatest discontent. The Indian money standard was definitely changed from silver to gold so recently as 1893 for reasons affecting directly the Government of India and the Indian people, and proved to be of great benefit to India as a whole. But it is impossible to contemplate another permanent change in the rupee value of the sovereign for reasons which have not originated in India and at a time when neither the Government (apart from the part they play in the currency policy) nor the public have been inconvenienced by the standard legally established.

19. It is true that under the stress of war it has been a common expedient of Governments concerned to treat their money standards as of little account and to resort to inflation of currency as a means of conducting the finance of war. No such reason applies to the Indian case. The inflation of the Indian currency during the

war was a genuine inflation as distinguished from the artificial inflation witnessed in most of the belligerent countries. It arose from the balance of indebtedness due to India. The breakdown of the system was not due to war expenditure by the Government of India. It was caused by the acceptance in London of payments due to India in the form of sterling, which could not be transmitted to India by the usual methods. The commitments to India of the belligerent nations, as to other countries could be met in the usual manner through exchange operations or specie remittances. They were, in fact, unable to pay in international money, and obviously the best course to follow was that in fact followed in settling similar commitments in the United States by the flotation of loans.

#### BRITISH LOANS,

20. Unfortunately, India had not been prepared financially for absorbing her favourable trade balances in any other form than the precious metals. Although India is normally a creditor country with trade balances running highly favourable to her, other means of adjusting favourable balances than the precious metals have not been actively sought for. That is one of the disadvantages of currency arrangements conducted by the Government. Great Britain as a creditor country set an excellent example of cancelling her favourable balances by investments abroad. There has been no encouragement in India of that method of settling trade balances. There is far more British and other money invested in India than Indian money invested abroad. Still, there is little room for doubt that, during the war, British Government loans could have been successfully floated in India on a very large scale on the same lines, and terms as some of those publicly floated in the United States to meet the expenditure of the Imperial Government. It is also probable that something could have been done to encourage Indian investors to buy the Indian sterling loans held in London, if arrangements had been made for payment of

the interest at the Government district treasuries in India.

21. The break in ~~the~~ standard ratio during the war was, however, less serious than the still greater break during the present year. The overwhelming demands for war requirements were at an end, and although trade demands were urgent, it was imperative, in the interests of the great majority of the people of India, that their rights in the standard money of the country should have been protected from further modification. Trade and circumstances, especially in peace, must conform to the standard of money rather than that the money standard should accommodate itself to them. If it was impossible to meet trade demands without breaking the standard, that would be a reason for declining to meet them, but hardly a reason for meeting them and breaking the standard.

## II.—WATERING THE NOTE ISSUE.

22. With regard to the note issue there has been a complete reversal of the procedure formerly observed in the matter of the fiduciary issue the effect of which on the note issue itself can only be described as extremely unfortunate. The former practice was to increase the fiduciary issue by investment of a portion of the metallic reserves, and this was done only when the proportion of the latter to the total of the notes in active circulation had shown, over a considerable period, a position sufficiently strong to warrant an extension of the invested reserves and a corresponding diminution of the metal reserves. During the war, however, the fiduciary issue was expanded to an enormous extent without regard for the considerations which formerly decided extensions of that form of issue. It was no longer a case of investing a portion of the metallic reserves held in India against outstanding notes; notes were boldly issued against which no metallic reserves in India had ever existed. Also the proportion of the metallic reserves to the total of the outstanding notes was not allowed to have any

weight. It was a case of simply watering the note issue in its worse form—issuing notes without any metallic backing. In other words, it was a forced loan from the Indian public free of interest. It was an extreme measure to apply to the Indian note issue even during the war and at a time when there were immense sums held in London belonging to the Indian currency. Indeed, it appears to have been adopted because of the difficulty of transferring the balances held in London to India. But even so, the warnings which had been given at the outbreak of the war, when there was a run on the paper currency offices for the encashment of notes, should have shown the necessity of maintaining the note issue in a strong position and the undesirability of weakening it by an over issue of notes.

23. No exception can, of course, be taken to the security held against the notes thus issued which consisted of British Treasury bills, but the better course would have been to invite the public to take up the bills or some other form of British securities. The public might not have cared to accept the same rate of interest as the India Office obtained on the investments, but even if it had been necessary to pay a higher rate of interest it would have been better to face this cost rather than imperil the safety of the note issue.

#### INCONVERTIBILITY.

24. Not unnaturally there was much discussion as to the note issue becoming an inconvertible issue, and, indeed, an actual state of inconvertibility was only avoided by the narrowest of margins. To my mind inconvertibility would be a disaster of the first magnitude for the note issue and for India. It would destroy all confidence in Government's own paper money. Not only so but, seeing that British Government securities are so largely held against the note issue (the amount is Rs. 83,50,00,000 which, at the present rate of exchange

of 2s. 4d., is approximately 93,000,000l.), the credit of Great Britain is also involved.

25. I have mentioned that an actual state of inconvertibility was avoided only by the narrowest of margins. This was aided by the exceptional measures taken restricting the movement of coin by rail and steamer, which had the effect of confining exchange ability of notes into coin to the seven head currency offices. Even now in these offices conversion of notes into coin is directly and indirectly impeded.

26. Nothing can better show the effect on the public mind of the great expansion in the fiduciary issue and the methods adopted to avoid demands for encashment than the fact that currency notes were quoted at a heavy discount. A telegram from the Viceroy, dated the 8th November, 1919, stated that the highest rates of discount on currency notes reported during 1918 were 19 per cent. in the Central Provinces, 15 per cent. in Bengal, 13½ per cent. in Burmah, but His Excellency added that during 1919 the highest rate reported was 3 per cent. This telegram showed not only a very high rate of discount in 1918, but also that it was widely spread throughout the country, and while it is satisfactory that the rate of discount has fallen to a low figure this year the fact that such a considerable discount existed is one that must have a lasting influence on the minds of the public. The Governor of the Bank of England, in the course of his evidence before the Committee, remarked that a premium on gold was a very vicious thing. I think that, in the sense that a premium on gold is vicious, a discount on currency notes within India is equally vicious.

#### METAL RESERVES.

27. In view of the great disturbance to the credit of the paper currency arising from the great expansion of the fiduciary issue, I consider that the metal reserves should be strengthened as early as possible by the

liquidation of the reserves invested in London, and also that, in order to re-establish confidence, a high percentage of cash reserves should be maintained for many years to come. About 80 per cent. would not be too high a figure to fix as a normal proportion of metallic reserves to the total of notes outstanding. It must be remembered that this metallic proportion on the 31st March of each year from 1910 to 1915 inclusive averaged 78·2 per cent.

28. A well-conducted note issue is not only an economical and therefore profitable form of money, but also has an important educative effect in a country like India with a backward and ignorant mass of people. Also, it should be remembered that the internal trade of India is much larger than the external trade. Mr. E. M. Cook, C.I.E., of the Finance Department, has expressed the opinion that the internal trade is certainly fifteen times larger than the external trade, and that possibly the proportion is even higher. The ultimate possibilities of extending the note issue are therefore very great, but the first essential is to ensure that there shall be no grounds for distrust of the issue, and particularly that nothing should be done to give cause for the notes to pass at a discount.

### III.—THE PRICE OF SILVER.

29. The Committee were also asked to consider the bearing of possible future variations in the price of silver on the currency system and practice. The reference of this question to the Committee shows the great importance attached by the authorities to the continued use of silver in settling India's trade balances, even although the use of silver cannot be continued for the present without breaking the standard ratio. It is, in fact, the crux of the whole situation.

30. Information placed before the Committee lays great stress on the effect of the Pittman Act in the United States in its reaction on the price of silver and on the

Indian currency position, and it was the high price of silver which was the reason given for raising the rate of exchange during recent months which had the effect of altering the standard ratio between rupees and sovereign.

31. It is almost impossible to exaggerate the effect on the silver market of the raising of the rate of exchange for the rupee and making the rate more or less closely dependent on the price of silver on the ground that that price made the rupee more valuable as bullion than as a coin if the rate was not altered. It excited and inflamed the silver markets with anticipations of continued buying on account of the Indian currency at rising prices and there are not wanting signs that silver interests are prepared to take full advantage of the situation created by this measure.

#### RISE IN SILVER.

32. I am unable to fall in with the idea that the rise in the price of silver afforded solid ground for this recent great alteration in India's money standard. On the contrary, I contend that the price of silver has been artificially forced to its high level by the exclusion of stocks of Indian silver from the world's markets by means of the continuance of the prohibition of exports of silver, and the raising of the exchange rate. The position is that the American production of silver is shut out of the world's market automatically by the operation of the Pittman Act if the price of silver should fall below 1 dollar per fine ounce. The Act requires that until the silver taken from the dollar reserves is restored, the United States Treasury must buy at 1 dollar per fine ounce any silver of American origin tendered to it at that rate. This provision in the Pittman Act has been taken as establishing in effect 1 dollar per fine ounce as the minimum price of silver until the amount of silver withdrawn from the dollar balances has been restored, and since the silver dollars withdrawn under the Pittman Act for the



Orient represent between twice and three times the normal American production, it is estimated that the process of restoration will extend over a period of several years. The future production of American silver being thus assured of a market at a stated price, owing principally to the demands for Indian coinage during the war, and the current of trade showing the probability of fresh demands for India, while China was a keen buyer it was only to be expected that the price of silver would rise. At the moment of writing the price in London is about 78*d*. This price has been made possible only by the prohibition of exports of silver from India and by the raising of the rate of exchange, which has the effect of lowering the rupee value of all silver held there and making exports unprofitable. But for the prohibitory orders and the raising of the rate of exchange it would have been profitable for Indian holders to sell silver, and Indian sales would have prevented the great rise in price which has taken place. Under these circumstances, the high world price of silver can only be regarded as wholly artificial, and consequently as a reason for such a drastic step as the alteration of the money standard ratio between rupees and the sovereign has no weight.

33. It is frequently said that India is a sink for the precious metals and never allows them to come out. Here was an opportunity of disproving such statements. Silver would have been freely exported but for the measures taken by Government to prevent exports.

#### INDIA AND SILVER.

34. The exclusion of India's silver from the world's market is not altogether a new thing. It was practically excluded by imposing a duty on silver imports and not refunding the full duty paid when the silver was re-exported, and granting no refund of duty whatsoever on melted silver ornaments coming from the districts even in time of famine. I add a note on this subject in the ancillary problems dealt with at the end of this report.

35. There is the objection that it was necessary to protect the silver currency against depletion by export by means of ordinances forbidding exports. This is an objection which would have very great force in a country like the United Kingdom where the subordinate silver currency forms a small percentage of the total amount of all kinds of currency in active circulation the loss of which by export would cause the greatest inconvenience. In India it has very little force because the total amount of silver currency is far in excess of the quantity in active circulation and held against the note issue. It is estimated that there are about 3,000,000,000 to 4,000,000,000 of rupees in India. Moreover the amount that India could sell for export could not have reached very important dimensions because foreign buying power is limited, while Indian silver would not be accepted by the United States Treasury to replace the dollar balances since the replacement has to be made from silver of American origin.

36. A more serious objection to permitting silver exports was the extreme vulnerability of the paper currency reserves of coin, because of the extent to which the note issue had been watered by ordinances sanctioning the issue of notes in India against British Treasury Bills held in London. But here again the position was most artificial. The expansion of the note issue on the security of British Treasury Bills was in effect a forced loan from the Indian people, a method of meeting the difficulties of the time which I venture to suggest should not have been resorted to. The proper course was to suggest to the British Treasury the desirability of floating public loans in India on the lines of those raised by the British Government in the United States, if the payments to India in London could not be completed by transmission to India in the usual manner.

#### SELLING CURRENCY.

37. A real practical difficulty in the way of removing the embargo on silver exports as contrasted with the

difficulty artificially created by the watering of the paper currency, was that silver exports would have increased the amount of the balance due to India, which the authorities were already unable to transmit to India, and would also have involved a change in the method of adjusting the balances. Obviously, with silver exports, it would have been absurd to continue to settle the trade balances by means of the sale of rupee bills in London. The settlement would have had to be made in gold or by some form of deferred payments. The latter form of adjustment would not have been easy in the absence of preparation of the Indian market to take outside securities. And there would, no doubt, have been the usual objections to India being paid in gold. Still, I venture to think that even if gold had been required India could reasonably have expected consideration in the special circumstances of the case, especially after the war was over, and the embargo on gold exports had been removed in the principal money centres. The point at issue was a vital one for India, namely, whether India should be compelled to give up a vital part of her established money standard because the price of silver had made her token silver currency more valuable as metal than as coin. India had the power, and it would have been profitable for her and to her interest to prevent the rise in the price of silver by sales of the metal. The mere fact of Indian sales would have broken the strength of the silver market. In such circumstances it would not have been unreasonable for India to ask that her trade balances should be paid in gold so that she should be able to export silver for the preservation of her money standard.

38. Since the above was written it has been reported that the United States Government have followed the method here suggested by offering to sell silver currency when the price of silver went above the melting value of their silver coinage. It seems to me that what is being done in America could have been done in India.

## THE STANDARD RATIO.

39. But even if exports of silver were not allowed for the purpose of preventing the price of silver from rising, there was still no occasion to adopt the extreme measure of raising the rate of exchange, and so breaking the standard ratio. India did not require additional supplies of rupees. She could carry on for many years without any new silver coinage. The only alteration required would have been to stop the coinage of rupees, and that would have occurred automatically by reason of the loss coinage would involve. But if the coinage of silver ceased because it was unprofitable, the trade balances if they continued to be favourable would have to be settled by other means than importing silver. It appears to me that the authorities were not willing to permit of a settlement by other means. They had come to regard the practice of selling rupee bills in London without limit of amount as an all essential part of their duties in the administration of the currency which could not be given up. Yet the position proved that there was in fact a limit to the issue of rupees if the standard ratio was to be maintained, since rupees could no longer be coined without loss at that ratio. Rather than give up the sale of rupee bills the authorities raised the rate of exchange, so breaking the ratio, and continued to offer rupee bills for sale.

40. Still another method of avoiding the raising of the rate of exchange because of the high price of silver would have been to impose a duty on all exports at a rate sufficiently high to provide the means of meeting the additional cost of silver over the price at which silver could be bought and coined without loss at the fixed ratio. Such a duty would have the effect of moderating the foreign demand for Indian produce, and thereby moderating the balance of trade due to India ; while on the other hand, if India is compelled to accept payment in silver, the duty would enable India to avoid paying more for it

than the price at which it could be bought and coined without loss.

41. The authorities considered that there were only two alternatives open to them, either to raise the rate of exchange or to debase the silver coinage. I have endeavoured to show that there were other courses open to them without raising the exchange or debasing the rupee coins. But even if it were the case that they had only these two alternatives it is by no means certain that they took the better of the two. My own belief is that the people of India would prefer debased silver coins to an alteration of the ratio which the raising of the exchange involves. It would not be practicable or advisable to call in all the rupees in the hands of the public to be recoined, but any new coinage that became necessary could be issued in the form of a special silver coin, such as, for example, a two-rupee coin containing a reduced quantity of silver.

#### EXCHANGE AND SILVER.

42. In connection with the question of debased coins I may say here, by way of parenthesis, that although the Government of India have taken power to issue a nickel half rupee or eight anna coin I trust that they will hesitate before putting it into circulation, and also that the suggestion which has been made that the eight anna nickel piece should be made legal tender for a larger amount than one rupee will not be agreed to. The appearance in the currency system of one rupee paper notes and of two anna nickel coins has sufficiently alarmed the Indian people and led to the hoarding of rupees. It is unsafe to carry the debasement of the coinage any further by the use of nickel coins. I am of opinion that the eight anna nickel piece should not be put into circulation at all, and I suggest that instead of it an eight anna silver piece of reduced fineness should be coined and made unlimited legal tender, the existing eight anna coins being withdrawn from circulation for recoinage at the reduced fineness. The practice of issuing subordinate

coins of reduced fineness has been followed in the coinage of France and of the United States, and it seems to me much preferable to the use of nickel for such a high valued coin as the eight anna piece in India.

43. The authorities in raising the rate of exchange were, no doubt, influenced by the difficulties there would have been in settling the balance of trade by other means than silver, and especially gold. But I venture to question whether they have the right, by executive action, to disturb the legally established money system. The people of India are accustomed to complaints from financial quarters about India's absorption of gold, but they were fairly entitled to expect that their rights in the money standard would have been protected so far as the Government authorities were concerned.

44. Also, it is difficult to see where the advantage lies, in making the rate of exchange follow the price of silver. If silver has to be bought at present prices and coined into rupees at the present rate of exchange there is no economy of any consequence in using silver instead of gold. One of the advantages claimed in former years for issuing rupees instead of sovereigns was that it was economical. The rise in the price of silver took away that advantage.

#### INDIA AND GOLD.

45. I deal later with some of the objections raised to Indian demands for gold, but here I may point out that there is some misapprehension on the subject. The foreign trade of India is normally conducted with 77 other countries. From the following statement which I had supplied to the Indian press it will be seen that in the year 1913-14 (which was the last normal year before the war) the trade with each country resulted in a balance against India in the case of only five principal countries, the total adverse balance being 47,807,900l., of which the principal one, the United Kingdom, had a balance due by India of 40,098,800l. All the other countries

trading with India had to pay over 88,462,300l., to India. When, therefore, India takes gold it is because gold as the international form of money is due to her in payment of commodities supplied to those other countries :—

Countries.	Exports of Merchandise from India.	Imports of Merchandise into India.	Balance of Trade against India.	Balance of Trade in favour of India.
	£	£	£	£
United Kingdom .. .. .	38,234,300	78,333,100	40,098,800	..
Java, Borneo and Sumatra .. .. .	1,415,500	7,773,900	6,358,400	..
Mauritius and Dependencies .. .. .	867,700	1,685,100	817,400	..
Norway and Sweden .. .. .	..	497,400	497,400	..
Persia .. .. .	438,800	474,700	35,900	..
Japan .. .. .	15,124,400	2,187,700	..	11,936,700
United States of America .. .. .	14,518,100	3,186,100	..	11,332,000
France .. .. .	11,711,500	1,794,900	..	9,916,600
Germany .. .. .	16,867,800	8,452,000	..	8,415,800
Ceylon .. .. .	5,866,300	548,100	..	5,318,200
Belgium .. .. .	8,008,400	2,539,000	..	5,469,400
Hong Kong .. .. .	5,102,300	654,900	..	4,447,400
Italy .. .. .	5,219,000	1,478,100	..	3,740,900
Austria-Hungary .. .. .	6,408,800	2,844,800	..	3,564,000
South America .. .. .	3,181,800	800	..	3,181,000
Egypt .. .. .	3,202,700	199,700	..	3,003,000
Australasia and Oceania .. .. .	3,321,500	651,600	..	2,669,900
China Treaty Ports .. .. .	3,799,200	1,136,700	..	2,662,500
Strait Settlements .. .. .	4,367,500	2,293,200	..	2,074,300
Russia .. .. .	1,636,200	37,700	..	1,598,500
Spain .. .. .	1,479,200	..	..	1,479,200
Turkey in Asia .. .. .	1,782,900	379,200	..	1,403,700
Holland .. .. .	2,359,700	1,033,400	..	1,326,300
Canada .. .. .	952,000	..	..	952,000
West Indies .. .. .	561,900	..	..	561,900
Natal .. .. .	535,100	..	..	535,100
Aden Dependencies .. .. .	816,200	286,700	..	529,500
Indo-China .. .. .	509,400	..	..	509,400
East African Ports .. .. .	542,000	66,600	..	475,400
Siam .. .. .	621,900	185,300	..	436,600
Arabia .. .. .	796,400	383,100	..	413,300
British East Africa .. .. .	506,000	258,900	..	247,100
Cape Colony .. .. .	213,700	..	..	213,700
Portuguese East Africa .. .. .	331,100	100,500	..	230,600
Turkey in Europe .. .. .	70,800	..	..	70,800
Other Countries .. .. .	1,421,400	1,403,900	..	17,500
<b>Total .. .. .</b>	<b>162,821,500</b>	<b>122,167,100</b>	<b>47,807,900</b>	<b>88,462,300</b>

#### IV.—THE REQUIREMENTS OF TRADE.

46. The Committee were further asked to make, recommendations as to the policy that should be pursued with a view to meeting the requirements of trade and to maintaining a satisfactory monetary circulation. It is very easy to exaggerate the importance of meeting the requirements of trade. Trade elsewhere is accustomed to finding its requirements met without the active intervention of Governments by means of sales of Govern-

ment bills. The usual and correct attitude of Governments is to provide machinery for coinage and to leave it to its own automatic action, except for the provision of subsidiary coins. There seems to be no good reason for trade with India to be conducted on different lines from those followed by other advanced countries. The requirements of trade in this connection consist of finding the means of exchanging foreign money for Indian goods to satisfy the needs of the moment. Trade as such is not concerned with currency policy or with the economic effect produced by the method of carrying out its exchanges. Its concern is purely personal and temporary to see each transaction completed. The concern of the Government, on the other hand, should be to protect and safeguard the interests of the people as a whole in the maintenance of the legally settled standard, and I consider that Government would be performing its duty better by paying more attention to this aspect of the question than by showing anxiety for trade requirements. It is no doubt a convenience for banks and some of the public to be able to get Government rupee bills for making remittances to India, and, when required, also from India. But it is not a convenience that trade has any right to look for. So far as the Secretary of State has to sell bills to meet Government's own requirements, the practice of offering the bills for sale is unobjectionable. But that is not the case when bills are sold in excess of Government's own needs and without limit of amount on the ground that such sales meet trade requirements. The real reason for this latter practice is not so much to meet the convenience of trade as to retain the power of diverting payments of India's foreign balances from gold to silver.

#### V.—THE GOLD EXCHANGE STANDARD.

47. The Committee were further asked to make recommendations as to the policy which should be pursued with a view to ensuring a stable gold exchange standard.



48. Before examining the working of the exchange standard I think it desirable to refer to some of the objections raised to the Indian money system.

49. The Governor of the Bank of England in the very important evidence he gave before the Committee, while he disclaimed any knowledge of Indian conditions, commented freely on the money methods practised in India. This criticism, coming from the highest currency authority in England, calls for careful consideration. A few of what appear to me to be his principal objections may be stated.

50. He took exception to the medium of exchange (gold) being used as a vehicle for hoarding instead of being left to play its part in the regulation of the exchanges. It was a wasteful employment of gold and detrimental to the interests of the individuals who practised it and to those of India as a whole. He thought it would be much more to the interests of India as a whole that her favourable trade balances should be invested in some productive form abroad, as Great Britain used to settle her favourable balances by investing them in foreign interest-bearing securities. He also thought the Imperial Government would have some grounds for imposing restrictions upon the unlimited demand of India for gold in satisfaction of the balance of trade, and also because India had managed with reduced supplies of gold during the war he thought she ought to be able to continue to do so. For internal circulation notes, he said, were as good as gold, as the experience during the war had proved in England, and all the gold that was required was the amount likely to be withdrawn for export by presenting notes.

51. From these opinions it is clear that the Governor of the Bank thinks that India should economise the use of gold on the same lines as those followed in England. This is not the place to discuss the merits and demerits of the English system, but since it is put forward as an example for India to follow it seems necessary to say

that, so far as the economy of gold in the internal circulation is concerned, the greatest agency in securing it has been the deposit-cheque system which originated with the bankers and their customers, apart from, and it is sometimes said in spite of, the Government or legal system of currency. Also, the methods by which the internal economy of gold for circulation purposes was attained in England developed simultaneously with the growth of the method of cancelling or avoiding gold imports in settlement of favourable foreign exchanges by means of foreign investments.

#### HOARDING.

52. With regard to the suitability of this system for India it seems necessary also to draw attention to the psychological difference between the people of India and the people of England. The people of India are a subject people with a history of many centuries behind them of insecurity of private property. They have been driven by the force of circumstances in the past to secret as far as possible such property as they valued. The British people, on the other hand, have a long, proud record of insular security. They are an independent race, and their enterprise has carried them all over the world, where they have formed connections and found favourable investments to the great advantage of individuals and of their mother-country. If, therefore, the British people have themselves, independently of their Government been successful in developing currency measures which have economised gold so satisfactorily to themselves this must very largely be attributed to their national characteristics and their historical sense of security. It cannot necessarily follow that the same gold economising measures are suitable to India, where the people have different traditions.

53. So far as the objectionable hoarding of gold is concerned there is not only the old tradition of insecurity of property inducing them to hoard, but there is the

comparatively new form of internal token currency, not exchangeable into gold, which makes a very strong additional inducement to those who can afford it to hoard gold for security, as explained in a later paragraph.

54. In the matter of internal currency, India has nevertheless made considerable progress in the direction of following English currency methods, particularly in the form of notes and cheques, although she is a long way from economising to the same extent as in England in the metallic backing to cheques.

#### LARGER LOANS.

55. But while India still requires, and must require for a long time to come, a very solid metallic backing for her credit currency, that is not to say that she requires constant additions to her metallic currency merely because her trade balances are favourable. When the Governor of the Bank of England suggested that India should follow the English practice of settling favourable foreign balances by investments abroad, he touched the weakest spot in the administration of the Indian currency system, and pointed the way to the real remedy to avoid excessive demands for the precious metals and particularly gold. The policy has been to sell rupee bills on India in London without limit of amount, which meant to any extent that might be necessary to settle the trade balances, and while the policy did not exclude Indian investments abroad, it left the matter to individual initiative, and did nothing to favour or encourage such investments. Yet, if the objections raised to the absorption of the precious metals in adjustment of trade balances are to be satisfactorily met, it can only be by means of investments abroad by India, or, which is very much the same thing, by other countries borrowing in India.

56. The war afforded a favourable opportunity for getting India into the way of absorbing favourable trade balances by lending to Great Britain, an opportunity of which advantage was not taken. It may be said that

India had some difficulty in raising the loan of 100 millions which she voluntarily contributed to the cost of the war. There was not the same inducement in that case, that there would have been in the case of a loan offered by the British Government, and the rate of interest offered was not so good as the interest paid in some cases for similar public loans raised elsewhere by the Imperial Government. India is full of money, and notwithstanding the general idea that it is not available for investment, in my opinion it is a question of terms and security.

57. Since the wide break in the standard ratio between rupees and the sovereign with its attendant unsettlement and feeling of insecurity, there is now less chance of India seeking investments abroad than ever. There are in addition to the instability and insecurity of the money standard, questions connected with foreign investments which must scare Indian capital, such questions, for example, as foreign taxation, capital levies, and inflated values due to artificially inflated currencies. But the same results, so far as the settlement of exchanges are concerned, could be obtained by the raising of foreign and particularly British loans in India.

58. Under the present system it can no doubt be claimed that India does in fact lend abroad through the investments held against the paper currency issue. But in so far as such investments represent either a forced loan from the people of India free of interest, or a tax on the money of the Indian people as explained later, they are not free of objections. I hardly think the Governor of the Bank had such loans in view when he made his suggestion as to India investing abroad.

#### GOLD EXCHANGE STANDARD.

59. Coming now to the working of the gold exchange standard, it seems necessary to mention the fact that the Indian money standard has been the subject of constant public controversy for many years. I have already referred to the difference of opinion as to whether it was

a gold standard or a gold exchange standard. But the mere fact that there is any opening for this controversy is, by itself, a most undesirable and unsettling feature in money affairs. The standard should be so fixed and defined as to leave no possibility of dispute or question as to what it really is. As already stated, I take the view that the legally established money standard is the sovereign with rupees definitely related to the sovereign at the rate of 15 to 1.

60. In contradistinction to this legally established standard, the gold exchange standard has no legal validity. It has not been clearly and explicitly defined. The authorities who conduct it exercised the widest discretion in its regulation, but hitherto have been careful to respect the legally-constituted ratio between rupees and the sovereign. Its usual working characteristics are well known. In one direction the object aimed at is to provide absolute security for the convertibility into sterling of so much of the internal currency as may be required for the settlement of India's external obligations. In the opposite direction it undertakes to sell rupee bills on India without limit of amount. In aiming at the maintenance of the sterling exchange it resembles the English system which, before the war, made a point of seeing that the exchanges remained within the gold points. In undertaking to sell rupee bills on India without limit the gold exchange standard system is unlike the English model, which, by means of the Bank rate, restricted expansion in the volume of internal credit currency and made it dependent upon the extent of the gold reserves.

61. The undertaking to provide rupees, which are token coins, without limit of amount, may in one sense be considered as authorised by the circumstance that rupees equally with sovereigns and half-sovereigns are full legal tender. Under the old silver standard rupees were, of course, legal tender, and when the standard was altered it was necessary to continue them as legal tender because of the great quantity which was then in

circulation. But whether, from the point of view of the statutory standard of the sovereign, the tremendous volume of rupees which has been added to the token currency can be justified is another matter. In reality the endless issue of token coins, much in excess of what is needed for internal exchange purposes, amounts to a form of taxation on the money of the public. It is this circumstance that is to a very large extent responsible for the extraordinary demands for gold and sovereigns in India. It virtually compels the Indian people to seek full value for the token money with which they have been over-supplied for ordinary currency purposes, and is thus largely responsible for the hoarding of gold of which so much is heard. India's hidden stores of gold can never be expected to be used profitably for the benefit of the holders or of the State so long as no reasonable assurance is provided that, when used, they will remain a gold asset, and that assurance is not provided by a currency in circulation entirely composed of or based upon token coins.

62. When I say that the issue of rupees largely in excess of what is needed for ordinary internal exchanges constitutes a form of taxation on the money of the public, it is necessary to add that the difference between the cost of gold coins and silver coins, which is the amount of the tax, does not go into the Indian Treasury balances, but goes to form gold or invested reserves in London which are intended to meet remittances from India at a fixed rate which cannot be made so advantageously through other channels. But even if the profits on coinage went to swell the revenues of the Government they would be no less open to the very serious objection that they really formed a tax on the money of the public.

63. In present circumstances, however, this form of taxation has practically ceased, since the coinage of rupees at the moment is not profitable. But as a counter-balance to the virtual disappearance of this tax, the latest development of the gold exchange standard system

has, by raising the rate of exchange and breaking away from the statutory standard ratio, depreciated the commercial value in rupees of the whole of the rupee currency which has already been taxed.

#### DEBTORS AND CREDITORS.

64. This latest development gives ground for the gravest anxiety, not only on account of the depreciation in value of the immense volume of the rupee currency, but also because it means a revolution in the financial and economic life of India.

65. It alters as it were by a stroke of the pen, the existing relations between creditors and debtors. It cuts down the value in rupees of all existing holdings of the precious metals in India relatively to their value in the markets of the world, including the gold portion of the reserves held against the note issue, and, similarly, it cuts down the value in rupees of all existing and future stocks of Indian produce, and through this effect on the value of produce it is bound to prejudicially affect scores of millions of Indians engaged in agriculture, whose struggle for existence is already most severe. It is not too much to say that it will threaten the very existence of millions of such people. It will further handicap Indian industries in competition with similar industries abroad and will severely check the prosperity of India. No doubt there will be some compensation. The finance of the Government will be relieved so long as the rate of exchange remains high, since the home remittances will cost considerably less in rupees, and it will be an advantage to those who buy imported goods or have payments to make outside of India.

66. It has been urged that one beneficial consequence will be the lowering of the high price level in India. This may be granted, since the value in rupees of Indian produce, the price of which is ruled by outside markets, must fall. But it is nevertheless a questionable method of reducing prices. There has been no artificial inflation

of the currency. Inflation of the currency has been a genuine inflation in India caused by a surplus of sales over purchases abroad. Even the forced loan in the paper currency issue is represented by debts, due by the British Government. By the change in the standard ratio prices will be brought down, since prices are reckoned in rupees ; but there is not the same good reason for changing the standard money to reduce prices that there is for deflating an artificially inflated currency to obtain the same result. In my opinion the inflation of currency in India is the consequence rather than the cause of high prices. The currency has been inflated because the balance of trade was favourable and because additions to the currency were the normal way of settling trade balances. The balance of trade was increased by the increased prices paid for commodities for export. In this way the additions to the currency were a consequence of high prices. On the other hand, the inflation of currency cannot in its turn be held to have raised prices, since all accounts go to show that currency of all kinds has been hoarded on a very large scale, and hoarded money does not act on prices. The change in the standard ratio will bring down rupee prices, but it will leave undisturbed the real cause of the high prices in India, which was that world prices were high and world prices were high mainly because the currencies of many countries were artificially inflated. It is simply a case of altering the nature of the money in which prices are reckoned, and, when advanced in excuse for the change of ratio, can only be regarded as an argument to deceive the people.

#### BALANCE OF TRADE.

67. The effect of the change outside of India cannot be so clearly estimated. But the probabilities are that with the higher sterling cost of the rupee the demand for Indian produce will fall off, while remittances from India being cheaper in rupees imports will be stimulated. If these probabilities should materialise India's trade balances will become less favourable to her than they have been, or it may be the trade balances will turn against her.



In either event the London market, where India's international trade is mostly financed and finally adjusted, will be relieved of the necessity of settling India's trade balances by means of specie remittances to the same extent as formerly, if, indeed specie remittances to India will be necessary at all, while in addition to that advantage the stimulation of imports by the reduced rupee cost of sterling exchange will increase the demand for English textile manufactures.

68. These revolutionary changes in the Indian money system should not have been possible and much less necessary at a time when immense sums were due to India in exchange for her commodities. They are to be explained by the particular bent of the policy followed—a policy of making India accept payment in India of the balances due to her as far as possible in the form of rupees. A policy less rigidly bent in that direction would have been susceptible to the need for meeting the very special circumstances of the time by other methods, such, for example, as that suggested by the Governor of the Bank of England when he pointed out the desirability of investments abroad in settlement of India's foreign claims. It is a policy which has persistently ignored the essential safeguard of a gold standard, and particularly the safeguard of limiting the issue of token coins. It has by mere executive action changed the legally established gold standard into a gold exchange standard, making the maintenance of exchange the object to be attained in place of the provision of gold money with a limitation of token money. And while the maintenance of exchange was the main object, the policy has broken away from the normal rate of exchange on the ground that the rise in the price of silver rendered that course necessary, although, as I have endeavoured to show, there was no real necessity for doing so. The fact that the maintenance of exchange was so readily abandoned and the sale of rupee bills continued, combined with the persistent flooding of India with silver token money, gives ground for the theory that fixity of exchange was only the ostensible object of the policy, and that the real object was to

compel India to take silver in place of gold money. Further, it is a policy which is settled and managed in London, and which necessarily operates in the markets of London and India. That the interests of the London market have not been without influence in shaping the policy may be gathered from the enormous sums of money or investments belonging to the Indian currency which have been accumulated there. The profits on silver coinage were steadily collected into the gold standard reserves in London, and now that the coinage of silver has ceased to be profitable, a new departure has been made in the issue of currency notes in India on the security of investments in London, which has had the effect of rapidly accumulating an enormously increased store of Indian currency money in London. These are changes which will be viewed in India with the gravest concern and mistrust.

69. India is fairly entitled to a system of sound money. The gold exchange standard has failed to provide such a system, and I am unable to make any recommendations for its continuance which would secure the stability it has lost. I consider that the authorities had no right to take the action of raising the rate of exchange and, in my opinion, it is their duty to proceed to undo what they have done.

#### VI.—POLICY.

70. On the subject of policy I desire to associate myself generally with the views expressed in the following extract from the able memorandum submitted to the Committee by Sir Stanley Reed, Kt., K.B.E., LL.D., of Bombay :—

“ . . . . I am strongly of opinion that the control now exercised by the Secretary of State over the Indian exchanges should be abolished at once. Official control over the exchanges is always a bad thing, and whilst possibly justified under the immense strain of the war, should not be retained a moment longer than is absolutely necessary. It has already been abolished in

every other country in the world, and it should be abolished in the case of India with the minimum of delay. Whilst this is true as a financial proposition, it is specially true of a country in the political condition of India. The Government of India, and to no less a degree the Secretary of State, is suspected in the eyes of a large section of the Indian community. All its actions are jealously regarded, often misunderstood, no less frequently misrepresented. The Secretary of State operates 6,000 miles from the great Indian financial centres. He is surrounded by, and naturally amenable to, interests which are not Indian in their ideas and aims. He acts in secret, and it is frequently impossible to obtain any information in India of the groundwork of measures which, however, wise and expedient in themselves are not understood and are liable to perversion in India itself. The political disadvantages of such complete powers being exercised in secret so far from the people who are, vitally affected by them, cannot easily be exaggerated. The only remedy is for the Secretary of State to divest himself as completely as possible from the management of the Indian currency and exchanges, and to allow these to be governed by normal conditions. It is essential, therefore, that the fixing of the exchanges by the Secretary of State and the distribution of Council bills amongst a limited circle of 'approved' buyers should not be restored. Council bills should be sold by open tender to whomsoever may apply, the only limitation being the smallest amount to be tendered, which might be retained at the figure of 10,000 rupees. Whatever inconveniences may attach to this procedure will be outweighed by the practical advantage of freeing the Secretary of State from the suspicion which, however unwarranted, is widely entertained, of subordinating the interests of India to those of financial institutions in the City of London, and of giving banks with their head quarters in London a preference over banks with their head quarters in India.

" The first of these essential steps is to remove all restrictions on the free movement of gold and silver bullion to and from India, and to establish free and unfettered trade in both precious metals. It is the inalienable right of every creditor country to determine for itself the form in which its debtors shall be paid. India is a creditor country and will remain a creditor country for as far ahead as we can see. India is a billion-using country, and the present exchange and currency difficulties have largely arisen from the arrest of the normal flow of gold to India and the substitution of creditor abroad by Government for the liquidation of the large balance of trade. Deprived of the normal supply of gold bullion, India has turned to the only precious metal available, and has absorbed coined rupees in prodigious quantities. There can be no financial health in India until this traditional demand for bullion is satisfied. The Currency Commission of 1913, presided over by Mr. Austen Chamberlain, laid down that 'the extent to which India should use gold must, in our opinion, be decided solely in accordance with India's own needs and wishes, and it appears to us to be just as unjust as to force gold coins into circulation in India on the ground that such action will benefit the gold-using countries of the rest of the world, as it would be to attempt to refuse to India facilities for obtaining gold in order to prevent what adherents of the opposite school have called the drain of gold to India.' The demand for freedom of trade for India in the precious metals comes from every important financial and commercial authority in the land, and it must be boldly and unequivocally recognised.

" It is objected that India is a bottomless sink for the absorption of the precious metals, and that gold once passed into general consumption in India is permanently lost to the rest of the world. This attempt to fasten upon India an exceptional and invidious responsibility for the consumption of gold cannot be too vigorously combated. India is still an illiterate country, whose credit and banking facilities

are miserably unorganised and where the practice of holding small savings in gold and silver ornaments is centuries old. Yet its normal demand for the industrial arts, and for the satisfaction of the social customs of three hundred and fifteen million people, was met before the war by about ten millions of gold annually. The United States of America was reported recently to be absorbing a million sterling in gold per month for industrial purposes. Yet no one says that the United States is a bottomless sink in the matter of her gold absorption. It is stated that in England one of the most flourishing trades during the war was that in cheap jewellery, in which form the working classes invested a substantial proportion of their increased earnings. Every country in the world uses gold and silver for industrial and domestic purposes, and it induces a sense of angry injustice to find that the Indian demand for the precious metals, for precisely the same purposes, is perverted into senseless hoarding, especially when the history and conditions would justify a far larger gold absorption than the Western nations with their general literacy and highly organised credit systems can claim.

“ The success of these and any other measures which may be adopted will largely depend on the publicity with which they are carried into effect:

“ Attention has already been drawn to the particularly difficult task which the Government of India has to discharge owing to the political status of India. That political status inevitably exposes all the acts of the Government of India to distrust, misrepresentation, and prejudice. Whilst this is true of the Government of India, which is in close contact with Indian opinion, whose members are well known in all commercial and financial centres, and where successive Finance Ministers have made it a practice for a number of years to keep in personal touch with financial and commercial opinion, it is doubly true of the Secretary of State the final authority in all financial matters affecting India, who operates six thousand miles away,

remote from Indian thought, feeling, and influence, but in living contact with the London market. Experience has taught us that the only remedy for misunderstanding in India is publicity; the antidote to misunderstanding and distrust is the truth. A mountain of misunderstanding of the most regrettable character, involving political dangers of great magnitude, has been reared by the secrecy with which the Secretary of State controls Indian financial policy; this mountain can be levelled only by the truth, spread with the widest publicity. It follows, then, that all financial operations carried on by the Secretary of State should be conducted in public and that the path of wisdom lies in the Secretary of State divesting himself so far as possible from the management of the Indian currency and exchanges, and substituting for this management automatic operations carried out in the gaze of the public.

“ An important step in this direction will have been taken if a free, open, and automatic exchange is established, Council bills being sold to the highest tenderers. But it will be necessary to supplement this measure by others in the same direction. All purchases of silver for the Government of India should be by open tender to be delivered in Bombay. Quite apart from the fact that this will attract to the great bullion market of Bombay silver from all parts of the world, it is the only means whereby the cloud of suspicion which overhangs the purchases of silver for the Government of India can be dispersed. The returns relating to all operations—currency and exchange—undertaken by or for the Government of India, should be couched in the fullest possible form and published at frequent and regular intervals. The financial position of India is such that she has nothing to fear from publicity; publicity is the great instrument through which to strengthen her credit abroad, and the position of the Government of India at home. *Magna est veritas et proevalebit* but truth cannot prevail if it is interred in archives of the India Office.”

## ANCILLARY PROBLEMS.

71. In my opinion the duty charged on silver imported into India is closely connected to deter the economic advancement of the people of India. This is a question which is not of importance so long as the embargo on private imports of silver is maintained, and no duty is consequently being levied. But when the embargo is raised I suggest that the duty should be given up because it is, in effect, a levy on the petty savings of multitudes of the people. The practice which custom impels the Indian masses to place such small cash reserves as they can scrape together in unfruitful investments in silver ornaments is, of course, a matter for regret, but it is simply a continuance of long established custom on the part of poor and ignorant classes whose individual accumulations are very small, and as a form of savings, not a fit subject for taxation.

72. It has to be remembered that the Indian masses were for long accustomed to see the values of silver, and of rupees on an equality. They could at any time convert their silver ornaments into rupees with little loss. With the closing of the Mints to the free coinage of silver this traditional equality of silver with rupees was broken. Rupees became of less value than silver. That change by itself was startling enough to the poorer and uneducated classes, but while it had the effect of depreciating the value in rupees of their holdings of silver, it gave them the opportunity of putting future savings into the customary form of silver at an advantageous rate relatively to rupees. To this great change in the position of silver relatively to rupees there came to be added another innovation in the form of an import duty on silver, which meant that everyone who followed the usual custom of purchasing silver, was called upon to pay a contribution to the State. The amount of the duty is a minor consideration. It is the fact of the duty being levied which is objectionable, for if the principle of a duty is admitted there is always the risk of

the duty being expanded, and that has already happened.

73. The great alteration caused in the rupee valuation of silver by the change in the monetary standard from silver to gold followed by the duty on silver imports, cut right into the established traditions and habits of the masses in the matter of their savings; and while there was good reason for the change in the standard there seems to me to be no sufficient reason for the silver duty. It is not calculated to inspire the masses with a sense of fairness on the part of Government towards their monetary habits, and on that account, is, I consider, likely to retard their economic advancement on sounder lines.

74. The duty on silver as carried out in practice is objectionable in other ways. When imported silver is re-exported the duty paid on importation cannot be recovered in full, thus placing an unfair burden on the Indian purchaser. In consequence of this inability to recover the duty in full on re-exports, the Indian silver market is placed at a disadvantage in competition with silver markets elsewhere, leading frequently to silver being retained in India when it might be re-exported. This disadvantage to the market reacts on holders of silver when they have occasion to dispose of their holdings, because, although they have paid the duty at the time of purchase, they may find when they come to sell that purchasers will deduct the duty from the market price on the ground that the silver may have to be sold abroad in competition with other silver markets.

#### INDIA'S BANKING PROBLEM.

75. India has an area of 1,802,657 square miles, and it contains 2,253 towns with 29,740,228 inhabitants and 720,342 villages with a population of 285,406,100. On the 31st December, 1917, the total number of banking officers in India was only 402, and many of them overlapped in the larger towns. In fact on that date there were in the whole of India only 165 towns which had



bank offices. The United Kingdom, with a population of 48,000,000, had 9,138 banking offices. Canada, with a population of 8,460,000, has about 4,000 branches of banks. Further; there are 294,875,000 illiterate people in India, and out of the 18,539,578 literates there are only 1,670,387 literates in English.

76. The vast and scattered population of India has thus modern banking facilities at 165, stations only, and consequently the financial power of India is insufficiently mobilised. Money lies dormant in endless small hoards.

77. It will be seen that there is a vast virgin field for the development and expansion of banking and for the collection into bank reserves of the innumerable stores of money lying idle throughout the country which could be utilised for the benefit of the holders and for the good of trade and of the State. At the same time expansion must necessarily be slow. The Indian public cannot be hurried and hustled in such matters.

78. It is sometimes said that a greater development of banking would cure the currency troubles. That seems to me to be putting the cart before the horse. The first essential to a great extension of modern banking is a currency system which inspires the public with absolute confidence. A credit system cannot overcome the difficulties arising from a system of money which is liable to violent changes in the valuation of the different forms of money of which it is composed, such as the present alteration in the ratio of rupees to the sovereign. No credit system could cure that fault in the money on which it rests. On the contrary unsound money would imperil the credit system. Hence, in my opinion, the need for making the money system in India a specially strong and sound one if the money resources of India are ever to be mobilised in a great banking system.

## APPENDIX II.

MEMORANDUM BY SIR STANLEY REED, K.B.E., LL.D.,

*Editor of The Times of India, Bombay.*

## I.—THE GENERAL PROPOSITION.

The goal of any exchange and currency policy should be, I venture to suggest, the establishment with a minimum of delay, of a free, open and automatic system conducted with the widest possible measure of publicity. In the East, finance and currency cannot be divorced from politics ; in a country of the political status of India it is inevitable that the acts of administration should be looked upon with suspicion and distrust. The only remedy for this suspicion and distrust is the establishment of an automatic system, carried on *Coram Publico* involving the presentation of such complete and regular information to the public that there can be no possible room for ignorance or misconception.

## THE PRESENT SITUATION.

During the war many expedients were forced upon those in authority which, however necessary in order to finance the war, were not always appreciated in India, and which caused a very considerable measure of apprehension. I refer to the embargo on the import of gold and silver ; the reduction of the facilities for the encashment of notes and the establishment of artificial restrictions on the movement of metallic currency ; the restriction of the sales of Council Bills, and the limitation of those sold to a small circle of " approved " buyers ; the control of many staple articles of merchandise ; the temporary shortage of rupees ; which at one period brought India to the very brink of inconvertibility ; and the raising of the rate of exchange above the stable level

of 15 rupees to the sovereign the goal of the currency policy adopted since 1898 and which India had made considerable sacrifices to secure. Although these discontents were submerged beneath the determination to win the war, they nevertheless existed. They have been aggravated by the course of exchange since the signing of the armistice. Rightly or wrongly, opinion in India looked for a rapid return to normal conditions ; it has been faced by an aggravations of those disturbances. Exchange has risen to over two shillings in the rupee. Business has been paralysed. A telegram to the *Times*, dated Bombay, August 26th of this year, reported that " At present the Indian export trade is practically at a standstill ; the Calcutta tea sales are suspended ; the price of cotton shows a heavy fall, and doubt and uncertainty prevail in the markets." These disturbances have shaken the confidence in the currency system of India established by painful and laborious endeavour since 1893. People are everywhere asking where the Indian Currency is drifting and whither. They have produced a situation both politically and economically of the most detrimental character and call for immediate and effective redress.

#### CAUSES OF THE PRESENT DISTURBANCES.

The main causes of this situation are common knowledge and need be only briefly recapitulated here. They arise directly from the war, and from the effort to finance a large balance of trade in India, and a very heavy expenditure in India on behalf of the Imperial Government by means of credits abroad instead of the import of gold and silver. For the five years 1914-19 the balance of trade in favour of India was Rs. 381 crores as compared with Rs. 391 in the previous quinquennium. But whereas in the quinquennium 1909-14 the balance of trade was largely liquidated by an absorption of the precious metals valued at Rs. 224 crores for the five years 1914-19 the total absorption of the precious metals was not more than Rs. 165 crores, of which only Rs. 55 crores were on private account. It is believed that the situation was

aggravated by a diminution of the invisible remittance of profits from India to England, both because those profits were largely invested in the India War loans, and in order to escape the high burden of taxation in the United Kingdom. During the war period the expenditure by the Government on behalf of the Imperial Government amounted to two hundred million sterling. Starved of the gold and silver bullion, which normally plays so essential a part in the social economy of the country, the Indian people turned inevitably to rupees, which were absorbed in everincreasing quantities. The absorption of silver rupees during the war period amounted to Rs. 110·39 crores, as compared with an average for the five years preceding the war of Rs. 43·91 crores. The note circulation has risen from Rs. 49·97 crores to Rs. 133·59 crores. The amount of the Indian reserves—the Treasury Balances, Gold Standard Reserve, and the Paper Currency Reserve—held abroad increased in the war period from thirty to a hundred and six million sterling, and the metallic backing to the Paper Currency Reserve has declined from 78·9 per cent. on 31st March 1914 to 35·8 per cent. on 31st March 1919.

## II.—THE REMEDIES.

These are conditions which have led India to a widespread demand for the stabilisation of exchange, as near as possible, to the long-established ratio of one shilling and four pence. There is the virtual certainty, owing to the favourable character of the season that Indian will have a considerable surplus of the food and produce, of which the world stands urgently in need, to export. At the same time the current of imports is falling short of the anticipation; it is known, for instance, that the provision made in the Budget for the purchase of Railway material will fall far below expectations, owing to the inability of manufacturers to deliver. With great public uneasiness in regard to the exchange and currency position, an inadequate metallic backing to the Paper Currency Reserve, and the hiatus between the pre-war quinquennium of gold and silver imports and the post-war quinquennium

the balance of trade can no longer be financed on credits. At the same time the rise in the price of silver which has passed 63 pence an ounce, precludes the possibility of adjusting the balance in rupees, or in silver only, without raising exchange to a point to which no present limit can be placed. To meet this situation three alternative proposals have been made. They are (a) the inconvertibility of the Paper Currency ; (b) the partial inconvertibility of the Paper Currency ; and (c) the paring down of the silver content of the rupee, a process commonly called debasement, a term which I reject because it associates a sinister meaning with a currency operation which in certain circumstances under a gold exchange standard system is perfectly legitimate.

The remedies I suggest are—

1. A free, open and uncontrolled exchange.
2. Free trade for India in gold and silver without any import duty.
3. The rapid and sustained development of banking facilities in India.
4. The establishment of facilities for the redemption by India of her foreign debt.
5. The strengthening of the Paper Currency reserve by the liquefaction of the securities now held until the metallic backing of the note issue is at least 50 per cent. and the holding of the whole of the Reserve in India.
6. The gradual strengthening of the gold holding in the Gold Standard Reserve and the holding of this gold in India.
7. The widest possible publicity in all matters connected with the Indian currency and exchanges, including the purchases of all metal required for the currency by open tender in Bombay.

### III.—A FREE OPEN AND UNCONTROLLED, EXCHANGE.

It remains to consider how best a free, open and uncontrolled exchange can be established, whether the Secretary of State should fix the rate at discretion, varying it by substantial amounts, say, two pence a time, according to the fluctuation in the price of silver, and maintaining the rate so fixed for as long as possible, possibly at some slight cost to the India revenues; or whether the rate should be fixed by open tender. I am strongly of opinion that the control now exercised by the Secretary of State over the Indian exchanges should be abolished at once. Official control over the exchanges is always a bad thing and whilst possibly justified under the immense strain of the war should not be retained a moment longer than is absolutely necessary. It has already been abolished in every other country in the world and it should be abolished in the case of India with a minimum of delay. Whilst this is true as a financial proposition, it is specially true of a country in the political condition of India. The Government of India, and to no less a degree the Secretary of State, is suspect in the eyes of a large section of the Indian community. All its actions are jealously regarded, often misunderstood, no less frequently misrepresented. The Secretary of State operates six thousands miles from the great Indian financial centres. He is surrounded by, and naturally amenable to, interests which are not Indian in their ideas and aims. He acts in secret, and it is frequently impossible to obtain any information in India of the groundwork of measures, which however wise and expedient in themselves, are not understood and are liable to perversion in India itself. The political disadvantages of such complete powers being exercised in secret so far from the people who are vitally affected by them, cannot easily be exaggerated. The only remedy is for the Secretary of State to divest himself as completely as possible from the management of the Indian currency and exchanges and to allow these to be governed by natural conditions.

It is essential, therefore, that the fixing of the exchanges by the Secretary of State, and the distribution of Council Bills amongst a limited circle of "approved buyers" should not be restored. Council Bills should be sold by open tender to whomsoever may apply the only limitation being the smallest amount to be tendered, which might be retained at the figure of ten thousand rupees. Whatever inconveniences may attach to the procedure will be outweighed by the practical advantage of freeing the Secretary of State from the suspicion, which, however unwarranted, is widely entertained, of subordinating the interests of India to those of financial institutions in the City of London, and of giving banks with their headquarters in London a preference over banks with their headquarters in India.

The relieving of the exchange from control, and the placing of Council Bills up to open tender after fixing permanent rate for imported sovereigns will be followed by immediate oscillations in the exchanges. But an adjustment of the exchanges to their natural level is inevitable. It is the only possible means by which the financial disturbances set up by the war can be corrected by a readjustment in the balance of trade. It is not a question between a high exchange and a low exchange, between a fixed and a fluctuating exchange, but between the attainment of the natural level of exchange by the operations of the market, or the attainment of the natural level of exchange by stages fixed in the discretion of the Secretary of State—stages whose necessity will never be generally understood and which will be exposed to the certain risk of being dictated by the financial interests of London rather than by the economic necessities of India. There are disadvantages in either course, but the lesser disadvantages in the political situation of India are assuredly with that which removes from the Secretary of State the invidious task of taking arbitrary action, on grounds which may not be disclosed to the public. Ultimately the natural level of exchange will be established and it is detrimental to the interests of India to main-

tain it, by artificial means, above this natural level. There is every reason to believe that after the first spasms exchange will settle down to comparative stability, especially if this measure is accompanied by the two steps which should simultaneously be adopted.

#### IV—FREE TRADE FOR INDIA IN GOLD AND SILVER:

The first of these essential steps is to remove all restrictions on the free movement of gold and silver bullion to and from India and to establish free and unfettered trade in both precious metals. It is the inalienable right of every creditor country to determine for itself the form in which its debts shall be paid. India is a creditor country and will remain a creditor country for as far ahead as we can see. India is a bullion using country and the present exchange and currency difficulties have largely arisen from the arrest of the normal flow of gold to India and the substitution of credits abroad by Government for the liquidation of the large balance of trade. Deprived of the normal supply of gold bullion, India has turned to the only precious metal available, and has absorbed coined rupees in prodigious quantities. There can be no financial health in India until this traditional demand for bullion is satisfied. The Currency Commission of 1913, presided over by Austen Chamberlain laid down that "The extent to which India should use gold must, in our opinion, be decided solely in accordance with India's own needs and wishes, and it appears to us to be just as unjust to force gold coins into circulation in India on the ground that such action will benefit the gold using countries of the rest of the world, as it would be to attempt to refuse to India facilities for obtaining gold in order to prevent what adherents of the opposite school have called the drain of gold to India". The demand for freedom of trade for India in the precious metals comes from very important financial and commercial authority in the land and it must be boldly and unequivocally recognised.

It is objected that India is a bottomless sink for the absorption of precious metals, and the gold and silver



once passed into general consumption in India is permanently lost to the rest of the world. This attempt to fasten upon India an exceptional and invidious responsibility for the consumption of bullion cannot be too vigorously combated. India is still an illiterate country whose credit and banking facilities are miserably unorganised, and where the practice of holding small savings in gold and silver ornaments is centuries old. Yet its normal demand for the industrial arts, and for the satisfaction of the social customs of three hundred and fifteen millions of people, was met before the war by about ten millions of gold annually. The United States of America was reported recently to be absorbing a million sterling in gold per month for industrial purposes. Yet no one says that the United States is a bottomless sink in the matter of her gold absorption. It is stated that in England one of the most flourishing trades during the war was that in cheap jewellery, in which form the working classes invested a substantial proportion of their increased earnings. Every country in the world uses gold and silver for industrial and domestic purposes, and it induces a sense of angry injustice to find the Indian demand for the precious metals, for precisely the same purposes, is perverted into senseless hoarding, especially when the history and conditions of India would justify a far larger gold absorption than the Western nations with their general literacy and highly organised credit system can claim. Assuming the establishment of free trade in gold and silver, and the consequent breaking of the present premium on gold in India, the question arises what should be the new official ratio of the rupee to the sovereign. The goal should be as near a return as possible to the official ratio which has stood so long and to which all Indian trade conditions have adjusted themselves. But the determining factor is the operation of the Pittman Act under which the Government of the United States has bound itself to restore the silver taken from the dollar holding at no less than a dollar an ounce. For as far ahead as we can see, then, silver cannot fall below a dollar an ounce. This figure should be accepted as governing the situation and the ratio should be fixed

on the basis of silver at a dollar an ounce, which would make the new ratio in the neighbourhood of one and six pence per rupee.

An important ancillary point is the position of the sovereigns which have passed into circulation, and of the gold mohurs which were issued in 1918 to meet a special emergency. The sovereign is gold note redeemable at 15 rupees. The good faith of the Government, and the stability of the Indian currency system are bound up with the faithful discharge of this obligation. No time should be therefore lost in undertaking to redeem so many of these sovereigns and gold mohurs as may be offered for redemption at the present official ratio. Government should, therefore, without delay advertise in the Gazette, in the English and vernacular newspapers, at every Treasury Office and at the post offices, that they will redeem sovereigns at 15 rupees per sovereign for, say, three months. On the expiry of this period they may be left to their money value. The case for the redemption of the gold mohur at the official ratio is even stronger than that of the sovereign, for it is stamped "15 rupees". Any failure of Government to fulfil this obligation will react with prejudicial effect on its future currency policy, for it will shake confidence, at a time when it is of paramount importance to restore and maintain confidence, and will deepen suspicion and mistrust, when it should be the first aim to banish both.

## V.—THE EXTENSION OF BANKING FACILITIES.

The second of these essentials is the rapid and sustained development of the Indian banking organisation. On 31st December 1917, the number of Head Offices and branches of banks for the 315,000,000 of India was only 402. The three Presidency banks, after three-quarters of a century of lucrative existence have only 66 branches. The progress of recent extensions is only a drop in the ocean of India's requirements. Canada with a population of less than 8,000,000, had on the 31st October 1918, 3,306 branches of banks; there have been opened in that Dominion since the signing of armistice between 500 and

600 new branches. There are thousands of commercial centres in India where no stable banking institutions exist, and where, lacking sound places of deposit, the Indian with small capital at his disposal must either keep it in the form of notes, gold, silver, or ornaments, or entrust it to the local money-lender. The facilities for investment in Government securities are still inadequate.

The development of the Indian banking system in one of the pressing questions of the hour, and whilst it may operate slowly, it will operate surely in the reduction of the demand for the precious metals. Whether this development should come from the extension of the Presidency banks, or the establishment of a State bank is a secondary matter. The Presidency banks are in present and active operation, and the question is too urgent to admit of being side-tracked whilst the establishment of a State bank is being thrashed out with the consequential paralysis of private activity whilst the prospects of State interference is hanging over it. The Presidency banks have made and are making large profits—larger profits than are justified in the case of banks which are the sole banking custodians of the public funds not retained by Government itself ; they have not been called upon to render corresponding services to the community by the better organization of the Indian credit machinery. The time has arrived when the resources of the Presidency banks should be still further increased by placing all Government funds in their custody through the abolition of the Reserve Treasuries. Coincidentally, they should be required to accept a definite programme for the development of their branches. Such a rough working programme would involve, say, the opening of five hundred new branches in the next five years. Should the Presidency banks prove either unwilling or unequal to the discharge of this enterprise, the work would be automatically taken over by a State bank at the end of the period of grace. The execution of such a programme would involve the entertainment of a very large trained Indian staff, where only a limited supply now exists. It is only right that the Presidency banks should have the

power to call on the State to establish the educational facilities necessary to furnish a sufficient supply of men trained in banking and commerce, from which the requisite staff might be recruited.

## VI.—FACILITIES FOR THE REDEMPTION OF THE FOREIGN DEBT

The third essential is the provision of facilities for the redemption by India of her foreign debt. One of the recognised means of readjusting such a disturbance in the balance of indebtedness as has been set up in India by the financial operations of the war is the redemption of the foreign debt. The sterling debt of India, according to the latest returns, amounts to £173,000,000, held exclusively in the United Kingdom. Every possible facility and encouragement should be offered for the redemption of this debt by the people of India, through the establishment of agencies, for the purchase of these securities in India, at the current rate of exchange, and paying interest in India free of all British taxation.

## VII.—THE RESERVE.

### THE PAPER CURRENCY RESERVE.

The distinguishing influence of the war on the Paper Currency Reserve is the reduction of the metallic backing to the note issue. In 1914 the metallic backing to the note issue was 78·9 per cent. ; in March of 1919 it was only 35·8 per cent. It is imperative that the metallic backing to the note issue should be raised without delay. In India the weekly statements issued by the Paper Currency Department are watched with the closest attention and any undue weakening of the metallic reserve arouses distrust and induces lack of confidence. Any economies effected by a large investment of the reserve are dearly purchased by the weakening of confidence which they produce. Indian opinion is solidly in favour of the largest possible metallic backing for the note issue and infinitely prefers this solid backing to the profits which accrue from investments. What should

be the exact ratio of metal to the note issue is a technical point ; but it should not be less than 50 per cent.; and the higher it can be raised above 50 per cent., the greater will be the confidence aroused in the Paper Currency. The investment should be held in India, and to a limited extent, say, 15 per cent., in commercial bills endorsed by the Presidency banks.

The whole of the Paper Currency Reserve should be held in India. Whilst it may be a convenience to the Secretary of State to hold a small proportion of the Reserve in London, to facilitate the purchases of silver, that convenience is dearly purchased by the weakened confidence which arises from the transfer of any portion of the reserve from its proper home, India, to an artificial home, London. Moreover, even this convenience will disappear if there is adopted the course which I shall suggest later, the purchase of all silver required for the currency by open tender in India.

#### THE GOLD STANDARD RESERVE.

The disappearance of the metallic element in the Gold Standard Reserve has been even more complete than in the Paper Currency Reserve. On 30th September 1914, the gold held in this Reserve aggregated £11,609,000 ; on 30th June 1919, there was none.

In the present stage of the Indian currency there is a tendency to belittle the importance of the Gold Standard Reserve and to regard it as something in the nature of a luxury. That position is exceedingly dangerous. None can foresee the future ; the only path of safety is to be prepared for all emergencies, even such an unexpected contingency as a sudden and heavy demand for sterling remittance. Whilst the first duty is the rapid liquefaction of a substantial proportion of the securities held in the Paper Currency Reserve, we cannot lose sight of the necessity of maintaining a large gold holding in the Gold Standard Reserve.

Early opportunity, therefore, should be taken of carrying into effect the recommendations of the Chamberlain

Commission, which aimed at building up a gold holding in the Gold Standard Reserve of fifteen millions, and thereafter of keeping one half of the Reserve to whose size no present limit can be placed in gold.

With regard to the situation of the Reserve, whilst theoretically it may be true to say that in time of emergency it can only be of service in London, that academic principle needs to be qualified by several practical considerations. The experiences of the war have taught us that the actual position of a gold reserve is immaterial as long as it is in safe custody and earmarked for specific purposes. But we have to consider the special position of the Government of India. That Government has heavy responsibilities in the deposits in the Post Office Savings Bank, Treasury Bills, and in loans redeemable at comparatively short notice. All these it is liable to meet in a country subject to financial panics, and where banking credit, although growing, is small both in comparison with the size of the country and the magnitude of the responsibilities of Government. The greater the financial power of Government, the less are its reserves likely to be drawn upon, and it will be a source of great strength to the Government of India, as was shown during the strain of 1914, if it is buttressed by a substantial block of the Gold Standard Reserve. For these amongst other reasons, I urge that the gold in the Gold Standard Reserve shall always be held in India.

#### VIII.—THE NEED FOR PUBLICITY.

The success of these and any other measures which may be adopted will largely depend on the publicity with which they are carried into effect.

Attention has already been drawn to the particularly difficult task which the Government of India has to discharge owing to the political status of India. That political status inevitably exposes all the acts of the Government of India to distrust, misrepresentation, and prejudice. Whilst this is true of the Government of India, which is in close contact with Indian opinion,

whose members are well known in all commercial and financial centres, and where successive Finance Ministers have made it a practice for a number of years to keep in personal touch with financial and commercial opinion, it is doubly true of the Secretary of State, the final authority in all financial matters affecting India, who operates six thousand miles away, remote from Indian thought, feeling, and influence, but in living contact with the London market. Experience has taught us that the only remedy for misunderstanding in India is publicity ; the antidote to misunderstanding and distrust is the truth. A mountain of misunderstanding of the most regrettable character, involving political dangers of great magnitude, has been reared by the secrecy with which the Secretary of State controls Indian financial policy ; this mountain can be levelled only by the truth, spread with the widest publicity. It follows, then, that all financial operations carried on by the Secretary of State should be conducted in public, and that the path of wisdom lies in the Secretary of State divesting himself so far as possible from the management of the Indian currency and exchanges, and substituting for this management automatic operations carried out in the gaze of the public.

An important step in this direction will have been taken if a free, open, and automatic exchange is established, Council bills being sold to the highest tenderers. But it will be necessary to supplement this measure by others in the same direction. All purchases of silver for the Government of India should be by open tender to be delivered in Bombay. Quite apart from the fact that this will attract to the great bullion market of Bombay silver from all parts of the world, it is the only means whereby the cloud of suspicion which overhangs the purchases of silver for the Government of India can be dispersed. The returns relating to all operations—currency and exchange—undertaken by or for the Government of India, should be couched in the fullest possible form and published at frequent and regular intervals. The financial position of India is such that she has

nothing to fear from publicity ; publicity is the great instrument through which to strengthen her credit abroad, and the position of the Government of India at home. *Magna est veritas et proevalebit*—but truth cannot prevail if it is interred in the archives of the India office.

### IX.—ALTERNATIVE PROPOSALS.

#### EITHER IMPRACTICABLE OR POLITICALLY UNDESIRABLE.

The alternative proposals to a free and open exchange, with its concomitants, free trade in the precious metals, an extension of the banking system and facilities for the redemption of the foreign debt, have only to be examined to be found either impracticable or politically undesirable. They are the inconvertibility of the rupee ; the partial inconvertibility of the rupee ; or the fining down of the rupee.

#### INCONVERTIBILITY.

The inconvertibility of the paper currency is inconceivable, except in the last resort. The currency notes of the Government of India are stamped with a definite promise to pay on demand in rupees. The good faith, the credit, and the integrity of the Government are indissolubly associated with the satisfaction of that demand. Any evasion of this definite obligation would strike a blow at the credit of the Government from which it would never recover. Further the expansion of the note issue, which has been such a remarkable phenomenon in the recent history of the Indian currency, was, before the war, in regular response to the greater facilities for the encashment of notes which have been provided, and the strength of the metallic reserves. The exceptional expansion of the paper currency during the war, whilst a phenomenon common to all countries, is nevertheless a striking demonstration of confidence in the solidity of good faith of the Government. That faith once disturbed can never be restored. Moreover, in the conditions of India, where the mass of the population is illiterate and ripe for exploitation by the profiteer, inconvertibility



would inflict great hardships on the people as a whole. The note would immediately go to a discount ; holders of notes would be fleeced at every turn ; two standards of value would be established—the note value and the silver rupee value—and the silver rupee would disappear from the currency for all time. There is a further consideration. It is a commonplace of currency economics that the inevitable evils of inconvertibility can only be made bearable by a plenteous provision of small change. There is every reason to believe that a decision to render the Indian note inconvertible would be immediately followed by a famine in small change. Deprived of the gold and silver bullion, in which he ordinarily holds his savings, the Indian would at once begin to accumulate small change until small change disappeared as completely as the silver rupee. This is demonstrated by the experience of Simla in June, July and August 1918. There was a temporary shortage of rupees in the station, and small change disappeared like magic ; even post offices and other Government institutions had to give change in stamps. It was found on inquiry that the hill men, who work in Simla during the season and return to their villages with their small savings on which to subsist during the winter unable to obtain rupees, put in the savings into small change. The situation was not remedied until a plentiful supply of rupees was procured. There is every reason to fear that if the Indian note were made inconvertible, the famine in small change would be universal, and that the hardships always attendant on an inconvertible currency would attain unbearable proportions.

#### PARTIAL OR TEMPORARY INCONVERTIBILITY.

The second proposal is that the Government of India should usually, *i.e.*, when the price of silver is favourable, maintain the full convertibility of the note issue, but should take power, at discretion, temporarily to suspend the encashment of notes, *i.e.*, when the price of silver rose above the exchange value of the rupee. The mere formulation of this scheme argues a failure to appreciate the

special conditions of India. If it be agreed that the inconvertibility of the note issue would immediately induce the establishment of a discount on notes, drive the great mass of the rupee currency out of circulation, and establish two standards of value, the silver rupee standard and the paper standard then the same results would immediately follow from the temporary suspension of convertibility. As soon then as the currency offices were re-opened for the free encashment of notes there would be a rush for rupees, in order to secure the profits accruing from the discount on notes, which no conceivable reserves could long withstand. No artificial expedient could more than fractionally arrest this rush. In a very brief period inconvertibility would again be forced on the financial authorities. Temporary inconvertibility in the conditions of India is a contradiction of terms ; it would inevitably lead by short jerky stages to complete inconvertibility ; indeed, it is more than possible that the mere taking of statutory power temporarily to suspend convertibility would precipitate such a run on the Paper Currency Reserves that inconvertibility would overwhelm the currency authorities whilst they were preparing to meet special contingencies.

### 3

### FINING DOWN THE RUPEE.

The third proposal is to fine down the silver content of the rupee to such a point that no rise in the price of silver, conceivable with the information at our disposal, would raise the bullion value of the rupee above its exchange value in relation to gold. This is practically impossible. The dominating feature in the Indian Currency situation is the universal use of and confidence in the silver rupee, and the immense volume of rupees, estimated at four hundred crores, in circulation.

The introduction of a new rupee, with a small silver content, would inevitably and immediately bring into operation Gresham's law and drive the existing rupee out of circulation. Even if the whole of the existing rupees were tendered for recoinage, it has been estimated by

competent authority that it would take the powerful Indian mints, working full time, thirty years to recoin the Indian rupees. But there is no prospect that the whole, or any substantial portion, of the existing rupee currency would be tendered for recoinage. Not a single rupee would be forthcoming which the possessor could, by any bearable sacrifice retain in his possession. There would at once spring up trade and speculation in the existing rupees, in which the illiterate population would be exploited. The Government of India would be faced with the task, at a time of shortage in the world's supply of silver and rising silver prices, of providing India with a complete new silver currency, with very little help from the supplies of silver actually existing in the country. Apart, therefrom, from all other considerations—and none acquainted with the Indian estimation of the rupee, which bearing the image and superscription of the King, is the visible sign of the King's sovereignty, would lightly tamper with it the fining down of the rupee is an impracticable proposition. Analogies drawn from the successful adoption of this expedient, where the volume of currency is small and a paper currency is almost universally used, are misleading and afford no guidance to Indian necessities and possibilities.

We must, therefore, dismiss the various schemes which have been put forward to enable the Government of India to maintain fixity of exchange at an artificially low rate and one divorced from the gold value of the rupee. Inconvertibility would be a misfortune so great that it should never even be considered save as a last resort. Partial inconvertibility is only complete inconvertibility in another form.

The fining down of the rupee is impracticable, even if it were economically and politically desirable. There is, therefore, no alternative between a free open and natural exchange and inconvertibility and for the reasons set forth, a natural exchange is the only proposition which can claim serious attention.

## APPENDIX III.

## IMPERIAL COUNCIL.

## COINAGE BILL EXPLAINED.

Mr. Hailey, introducing the Indian Coinage Bill, said : When your Excellency addressed this Council at the opening of the present Session you referred in some detail to the present financial state of the country. You narrated the steps which we and perhaps alone of all the belligerent countries, had been able to take towards the reduction of our paper currency. You referred to the fact that we had been able to remove all restriction, not only on encashment of notes, but the export of precious metals, and you finally announced that it was the intention of the Government to introduce legislation for the alteration of the sovereign ratio of the rupee from Rs. 15 to Rs. 10. That legislation will mark our final acceptance of and our determination to give practical effect to the recommendations of the Indian Currency Committee. Our general intention in this respect was announced on the 2nd February last. The particular step now under consideration was formally announced to the country in the *communiqué* of June 21st. It was, as I have shown above, again announced in your Excellency's speech of August 20th last. The proposal is therefore no novel one and the debates in this Council in March last will have familiarised honourable members with the main lines of the problems which the Committee had to face, and with the principles on which they framed their recommendations. But the matter is of the highest importance to the country, and a good deal has occurred in the world of finance since they made their report. I make no excuse therefore for alluding to-day at some-length to the question at issue and I shall in doing so offer to the Council some remarks on the light which subsequent events appear to cast on the recommendations of the Committee. What were the problems which the Committee had to meet? Let me remind the

**Council of the facts.** The rise in the price of silver made it necessary to take effective steps to protect our silver coinage. With silver at 43 pence an ounce the exchange value of the rupee at Rs. 15 parity was equal to its bullion value. When the price rose above the whole of our rupee currency was liable to go into the melting pot. The problem was not one to be regarded with equanimity. It was not alone the question of difficulty of material, for to protect our rupee currency we should have been obliged definitely to maintain an embargo on the export of silver. In 1903 the United States had to consider a similar problem with regard to the Phillipine peso, and they finally decided to protect that coin by reducing its weight and fineness. It is noteworthy that in so doing they deliberately adopted a standard which would give it the protection both of our rupee and the Japanese silver coin.

#### A REAL DANGER.

But I need not look to historical parallels. I will give you at once the greatest proof I possess that the danger which threatened us was a real one. The sole remedy which Mr. Dalal and dissentient members of the Committee could find to meet this situation was the issue of a two rupee coin of reduced fineness, a measure which would have inevitably driven every silver rupee under ground or into the melting pot, and which has, I think, I may say been universally condemned by all economic thinkers who have since approached the subject. Now what has been the history of silver subsequent to the issue of the report? I must refer to the subject because we have been told that subsequent events show that it was the high price of silver which then caused us so much apprehension and permanent danger. When the Committee reported silver stood at 78 pence. It subsequently descended to 44. It now stands at 61 pence. I remind the Council again that at Rs. 15 parity the melting point of silver is 43 pence, but this statement of figures does not complete the case. Since the report of the Committee was issued, India on Rs. 15 parity has lost the protection afforded by the French franc and German mark. They have either disappeared or been reduced in fineness and

they can no longer be relied on to increase the world supply of silver. Return to-day to Rs. 15 parity, and you will either have to reintroduce and maintain an embargo on the export of silver or you will have to debase your rupee, or adopt Mr. Dalal's impractical suggestion of a new coin of lower fineness. I reject and I must apologise to the Council for even mentioning this, the nightmare alternative of inconvertible paper currency.

#### THE ECONOMIC QUESTION.

I pass to the second problem which presented itself to the Committee, that which I may shortly call the economic question. Now this was not an aspect of the situation which the Committee took up of its own initiative. It was definitely and emphatically presented to them by the Government of India. Their action in so doing was reinforced by the considerations put forward by the unofficial members of this Council in the debate on high prices which took place in the Chamber in September last. Let me state the facts as succinctly as possible. Money had depreciated in Europe, prices of goods had everywhere risen greatly. Suppose that by any device we could have surmounted the difficulties I have already described and have maintained our ratio of Rs. 15 to the sovereign. Then obviously a large amount of depreciated currency received by India from Europe would have been reflected in an equivalent issue of currency here, and prices would have risen to the level to which they had reached in Europe. Scientifically there are only two alternatives. If exchange remains constant a great disparity between internal and external price levels can only be adjusted by a great increase in the volume of internal currency which would result in internal prices moving up to external price levels. The alternative is to break away the exchange, which would enable the same volume of internal currency to do the same amount of work as it did when external prices were at a lower level. We had represented to the Committee that prices in India had already reached a point which was injurious to the country as a whole. If the Committee were sitting a year ago we should reiterate that advice with increased emphasis.

With later experience of what high prices can mean in an undeveloped country, what social disturbance they can

an argument. Gold in India stands to-day at a premium, just as it stands at a premium in Europe and we shall not be able to issue sovereigns until that premium disappears. The world is not short of gold, but its stock is now held in bank reserves and does not pass into currency, but it cannot be a permanent lockup. Sooner or later the banks of the world will have to open their safes, and make available for commerce the gold it demands as currency. When the world has used its credits it will absorb its note issue, and finally it will use its gold. India will then get all the gold she demands in payment for her exports. I recognise that she will demand gold, if we reduce the ratio to ten rupees, but this Council I fancy will be the last to object to such a result. Meanwhile our position will be no more anomalous than that of any other country which has a gold standard, but which for similar reasons is unable to issue gold. You cannot get sovereigns to-day, either as currency or for export in England. All you can get is a share of the limited supply available from South Africa. What is there anomalous in the fact that when the supply of gold for general use is restricted the Indian price of gold should be above the legal ratio? There is an argument not directly connected with that which I have just noticed, but sometimes met with in current criticism and I should like to meet it here. We are told that the new ratio will by cheapening gold create so vast a demand that India will import gold instead of other commodities. Now India must pay for imports by exports. If she imports gold instead of other commodities that is a natural process which will hardly benefit her, but with which we could not desire to interfere. If she imports gold in excess of her exports she will again have to increase her exports, but there is a point beyond which this cannot go. There can be no permanent danger of any such process, nor can it be really serious unless the purchasing power of India is greater than we suspect it to be.

#### HIGH EXCHANGE AND THE EXPORT TRADE.

I turn to the second point that a high rate of exchange will injure Indian export trade. I maintain that objection

shows a confusion between the effect of a rising exchange and a fixed high exchange. The correct theory has been very clearly stated in a note by Mr. Howard. Other things being equal and neglecting monopoly or quasi-monopoly of trade a rising exchange admittedly tends temporarily to stimulate imports and check exports, and a falling exchange to stimulate exports and check imports. These processes might be expected to continue for some time until the equilibrium in the exchange rate has been established, and until various adjustments in internal prices and wages had been effected. It does not, however, by any means follow that under a fixed high exchange exports would necessarily be prejudicially affected, or that with a fixed low exchange the converse would be the case. It would seem to be a legitimate assumption that, other things being equal, with a high exchange internal prices generally will be lower and consequently as a result cost of living and cost of products will also be lower than with a lower exchange rate. For example take one of India's exports, in respect of which prejudicial effects of a high exchange have been advanced in the past. Cotton mills will, with a higher rate of exchange obtain less for their yarn and piece-goods. They will on the other hand pay less for their imported machinery, less for their cotton, and less for their labour than if exchange were lower. That is the economic law as stated by Mr. Howard, and I have no doubt of its correctness. I trust that no one here will argue that because for the last two months the value of imports has exceeded exports, that it is due to the recent high rates of Exchange, or will proceed to deduce from these false premises the conclusion that a high rate of exchange will alter the balance of Indian trade. There is no commercial man, I think, who will support this suggestion as a statement of fact. Imports have, for causes peculiar to themselves, been exceptionally high in value. Exports been restricted by the embargo on the export of food-grains ; by the failure of Japan to take up its expected supply of cotton, by the inability of European markets to provide the credit necessary to establish export relations with this country, by the glut of certain articles such as hides and skins in the markets of the world, and by



as transport difficulties in India. I have given in some detail our reasons for placing this legislation before the Council, and I have explained to the best of my ability the faith which is in us in regard to the principles involved.

I wish to conclude with one observation I have heard it said in this Council that the recommendations of this Committee were rather in the interests of London than of India. I admit that I have heard less of this charge in the Press lately, but if that feeling, that baseless and unjustifiable feeling, still exists on any quarter, let me give one argument which should I think dissipate it. The cardinal principle on which the Committee's recommendations turn is the free movement of gold to and from India, and the assumption that India will, when the former gold parity returns, be able to utilize gold for currency. We have been told, not once, but a thousand times, that London grudges India its gold. Could any London merchant have signed this report if he had still any desire to grudge India its gold? Could he had retained any such desire, have signed a report which not only involved the eventual use of gold as currency, but wrote down gold to such a figure that it was bound to create a demand for gold far exceeding any that London had so far experienced? He could not have done so. He could only have signed this report if he were convinced, on the one hand, that it was not possible to deny India that free, that unrestricted use of gold which her public men have claimed, and on the other that the action contemplated by the report in the matter of exchange was genuinely for the good of India. (Cheers.)

APPENDIX IV.  
CURRENCY COMMITTEE.

REPORT AND ACTION.

*(Times of India, 2nd February 1920.)*

The following announcement by the Secretary of State, regarding the recommendations of the Indian Currency Committee, is published for general information :—

“The Secretary of State for India has considered in consultation with the Government of India the majority and minority reports received from the Committee appointed by him under the Chairmanship of Sir Henry Babington Smith to advise on the subject of Indian exchange and currency. The majority report, which is signed by the Chairman and all members of Committee except Mr. D. M. Dalal, states as its object the restoration of a stable and automatic system and the maintenance of the convertibility of the note issue.

2. The fundamental recommendations of report are as follows :—

(a) that the present rupee, unchanged in weight and fineness, should remain unlimited legal tender ;

(b) that the rupee should have a fixed exchanged value and that this exchange value should be expressed in terms of gold at the rate of one rupee for 11·30016 grains of fine gold, that is, one-tenth of the gold contents of the sovereign ;

(c) that the sovereign which is now rated by law at rupees 15 should be made legal tender in India at the revised ratio of rupees ten to one sovereign ;

(d) that the import and export of gold to and from India should be free from Government control as soon

as the change in the statutory ratio has been effected, and that the gold mint at Bombay should be open for the coinage into sovereign of gold tendered by public ;

(e) that the notification of Government undertaking to give rupees for sovereigns should be withdrawn ;

(f) that the prohibition on the private import and export of silver should be removed in due course and that the import duty on silver should be repealed unless the fiscal position demands its retention.

#### REPORT ADOPTED.

3. These recommendations develop with the necessary modifications required by altered circumstances the principles on which the Indian currency system was established before the war, and are accepted by the Secretary of State in Council as expressing the goal towards which Indian administration, following the previous policy, should now be directed.

4. Under the conditions existing prior to the war sterling and gold were identical standards. The existing disparity has made a choice between these standards necessary, and the Committee's recommendation is in favour of placing the rupee on a gold basis.

5. In recommending a rate, namely, that above mentioned for the exchange value of the rupee the Chairman and majority have taken account of the high range of silver prices and of the importance of safeguarding the convertibility of the Indian note issue by providing so far as possible that the token character of the rupee shall be restored and maintained, *i.e.*, that the Indian Government may be in a position to buy silver for coinage into rupees without loss. They were also impressed by the serious economic and political risks attendant on a further expansion of Indian prices such as must be anticipated from the adoption of a low rate.

6. The arguments advanced in favour of a gold basis and of a high rate of exchange appear to the Secretary of State in Council to be conclusive, and he has decided to take the necessary steps to give immediate effect to the recommendations on these points. Accordingly, the

Government of India have to-day announced that the rate which they will pay for gold tendered to them under the Gold Import Act by private importers will henceforth be fixed at one rupee for 11·30016 grains of fine gold, *i.e.*, Rs. 10 for the gold contents of the sovereign. The consequential changes in the regulations relating to the sale of Council and of reverse drafts by the Government of India will be notified separately.

7. The question of the internal ratio presents special difficulties. The Committee recommend the maintenance of gold on a legal tender footing, especially in view of possible difficulties in obtaining adequate supplies of silver. A fixed ratio must, therefore, be established between the rupee and gold, as used in the internal circulation, either one sovereign for Rs. 15 as at present or one sovereign for Rs. 10 in correspondence with new exchange ratio. The former alternative would give the sovereign the status of an over-valued token coin, necessitating permanent control over the import of sovereign and making an open gold mint impossible. The Secretary of State in Council agrees with the Committee that such conditions ought not to be contemplated as a permanent arrangement. On the other hand, the lower ratio cannot be effectively introduced while a great disparity continues to exist between the commercial price of gold in India and the intended Indian mint par of one sovereign for Rs. 10.

8. Present conditions are a product of the war and in some sense artificial. They cannot be immediately remedied without the risk of shock to the economic and monetary system in India, and of reaction elsewhere to which India cannot in her own interests be indifferent: a gradual process of rectification and of adjustment to new conditions is required. For some time past action has been taken in India to reduce the premium on gold by regular Government sales of bullion to the public, and this measure will be further developed. It may be expected that in that way a natural adjustment may be effected until the path to legislation is cleared.

9. The Secretary of State has decided, therefore, first, that the import of gold shall continue for the present to be controlled by license under the Gold Import Act, with a fixed acquisition rate as mentioned above ; second, that meanwhile, periodical sales of gold bullion to the public shall continue ; and third, that as a provision measure during the transition period sovereigns shall remain legal tender at the present ratio of Rs. 15.

#### MR. DALAL'S REPORT.

10. In arriving at these decisions the Secretary of State in Council has not failed to give careful consideration to the minority report signed by Mr. D. M. Dalal. Mr. Dalal's main object is the effective restoration and maintenance of the ratio of 15 rupees to a sovereign as a measure both of exchange and of the circulating value of the rupee. In order to secure this he relies upon freedom for the melting and export of rupees and correspondingly to freedom for the import of gold. To meet the possible result in short age of silver coins he recommends that as long as the New York price of silver remains above 92 cents Government should coin two rupee silver coins of reduced fineness, the coinage of rupees of the present weight and fineness being meanwhile suspended, and only resumed when the price of silver falls to the figure named. He also recommends that sterling drafts on the Secretary of State should be sold only at 1s. 3 $\frac{1}{2}$ d.

11. The Secretary of State in Council is satisfied that this programme could not be adopted without untoward consequences. The heavy exports of silver coin to be anticipated under the scheme must threaten not only the whole silver circulation but also the Government reserves of silver coin, and entail the gravest risk of inconvertibility of the Government note issue. The demand for the gold required continually to make this deficiency good must greatly aggravate any strain there may be on the gold stock of world when the freedom of import is restored. Nor is it safe to assume that these difficulties could be met by issuing new silver coins of inferior fineness ; the

evidence against the acceptability of an inferior substitute for the present rupee has impressed the majority, and their recommendation on this head is accepted by the Secretary of State as decisive. Mr. Dalal's recommendation in regard to the rate for sterling drafts, if adopted, must produce an immediate crash in exchange bringing unmerited disaster to those who have reasonably relied on some continuity of policy. The only cover which his scheme affords in the export of the country's circulating currency. In any case, even if a return to the pre-war level of exchange could be accomplished without a shock to trade or risk to the Currency system, it would lay India open to a further serious inflation of prices, while the majority's recommendation would tend towards a reduction of general price levels in India.

12. Both during and since the war Indian currency and exchange have presented problems previously unanticipated and more perplexing than any encountered since the decision to close the mints in 1893. But the Secretary of State in Council is satisfied that decisions reached promise an eventual solution, and he desires to express his acknowledgments to the Committee and their Chairman for the ability and thoroughness with which they have explored the issues and have framed their recommendations."

#### COMMUNIQUE.

The acquisition rate for gold imported under license into India, which has hitherto been subject to variation notified from time to time has now, in accordance with the Secretary of State for India's separate announcement published to-day relating to the recommendations of the Indian Currency Committee, been fixed and the following fixed rates will apply to transactions on and after Monday, the 2nd February, namely ten rupees for each sovereign tendered for import or one rupee for 11.30016 grains of fine gold.

2. Council drafts will continue to be offered at the Secretary of State's discretion for weekly sale at the Bank of England by competitive tenders. The rate for deferred

telegraphic transfers and Bills will until further notice rank for allotment with tenders at one-sixteenth of a penny higher for immediate telegraphic transfers. No announcement will be made of the minimum rate at which tenders will be accepted, and the Secretary of State in Council reserve the right of rejecting the whole or part of any tender. In accordance with the Committee's recommendations the Government of India will, when occasion requires, offer for sale stated weekly amounts of sterling reverse drafts on the Secretary of State (including immediate telegraphic transfers). The rates for immediate telegraphic transfers on London will be announced on each occasion by the Controller of Currency and will be based on the sterling equivalent of the price of 11·30016 grains fine gold as measured by the prevailing sterling dollar exchange, less a deduction representing the charge of remitting gold. The rate for deferred drafts on London will until further notice be one-sixteenth of a penny higher than the immediate rate, as at present.

3. The Finance Department Notification No. 4071, dated the 11th September 1897, providing for the issue of rupees at the Reserve Treasuries in Calcutta, Madras and Bombay, in exchange for sovereigns and half sovereigns, at the rate of Rs. 15 and Rs. 7½ respectively, is cancelled. Notification No. 6908-A., dated the 11th December 1906, regarding the receipt of sovereigns and half sovereigns at the Mints is also cancelled.

4. The existing prohibition on the import of silver is cancelled, and the import duty of 4 annas an ounce is abolished. The prohibition on the export of silver remains.

5. The notifications under the Defence of India Act prohibiting the use of gold and silver coin otherwise than as currency, or dealing therein at a premium, are cancelled.

