

# **THE INDIAN MONETARY POLICY**

**B. P. ADARKAR**

**KITABISTAN**

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# The Indian Monetary Policy

*By*

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KITABISTAN  
ALLAHABAD & LONDON

**FIRST PUBLISHED IN 1939**

**PRINTED BY P. TOPA AT THE ALLAHABAD LAW JOURNAL PRESS,  
ALLAHABAD AND PUBLISHED BY BHABHANYAN, ALLAHABAD**

TO  
PANDIT AMARANATHA JHA  
VICE-CHANCELLOR, ALLAHABAD UNIVERSITY  
IN GRATITUDE  
FOR HIS INTEREST IN MY WORK

## PREFACE

**F**OR a layman to have his say in matters reserved for experts and specialists is a dangerous venture. In the modern world, currency and finance are, like the ancient mysteries, a close preserve for the elect. And yet they govern our destiny far more than the gods of old did when the world was young. Howsoever intricate and mysterious they might be, we must understand them; for if we ignore them, we do so at our peril. The controversy about the ratio has been with us now for many years and it has become an urgent problem for the State and the people. Professors and economists may argue and quarrel about the theory of it, but the burden of the present ratio falls in practice upon our people and our industry and agriculture. The argument still goes on but there are few major questions in India on which there has been such a consensus of opinion and such a unanimity of opposition to the policy of the Government of India. Most experts oppose this policy; Indian business men and manufacturers, having themselves suffered greatly under it, are bitter at its

continuance; and the National Congress has again repeated in emphatic language its condemnation of it and demanded a change. I have no doubt in my own mind that the artificially fixed exchange value of the rupee has injured not only our industry but also the mass of our agriculturists.

But the question now before us is not merely one of fixing one and four pence as the value of the rupee. It is doubtful if even that will meet the requirements of to-day, and it might be necessary to fix a lower figure. We have had our finances and currency juggled far too long in the interests of British vested interests. The time has come when this must end, however much the British Government might object.

I am glad that Mr. Adarkar has written this book and I hope that many will read it and thus gain an understanding of this important problem.

Allahabad  
January 9, 1939

JAWAHARLAL NEHRU



## INTRODUCTION .

FROM the point of view of the larger economic interests of India, the ratio question is of considerably less significance than the question of the appropriate monetary standard to be adopted. It has by now become a common place of currency literature that for a country which has a wider ambit of internal than of external trade, mere exchange stability, which is secured regardless of internal stability of production, prices and employment, is not a proper justification for a standard. For this reason, so far as the question of the appropriate standard is concerned, it is beyond the shadow of a doubt that an independent standard is to be preferred to an exchange standard in the case of India. In spite of this, India has had an exchange standard of one kind or another almost since the very beginning and under various pretexts, while now finally the sterling exchange standard has been adopted in its purest form, in the teeth of opposition of Indian interests. However, it is not the sterling standard so much as the exchange ratio associated with the sterling link which has caused more bad blood than anything else in the monetary history of India. It

is obvious that so long as the sterling nexus continues, the ratio will continue to dominate all other considerations in the shaping of a monetary policy for India. The controversy is not, therefore, dead.

Theoretically, the exchange problem is one of the most interesting topics in monetary literature and has rightly received its proper share of attention from high authorities such as Keynes, Cassel, Ohlin and others. The central issue in the discussions has always been the concept of an "equilibrium" or "natural" or "normal" ratio,<sup>1</sup> and the Indian exchange problem has presented itself as one of the most intricate applications of the doctrine in this regard. However, when the fate of the rupee was irrevocably decided in the year 1924 (*de facto*) and in 1926 (*de jure*), the purchasing power parity doctrine reigned supreme. In spite of technical criticism by Keynes and others, the truism as well as the fallacy of that doctrine dominated discussions on exchange policies, so that it was ever possible for the protagonists as well as the opponents of the 18d. ratio to prove their "cases" to their own satisfaction. However, much water has flowed down the bridge since then and foreign exchange theory has

<sup>1</sup> I have considered this question at considerable length in my book, *The Theory of Monetary Policy* (P. S. King, London, 1931).

made great strides. This is another reason why the ratio controversy may legitimately be opened up again. Lastly, one more reason for re-opening the issue is the fact that a good deal of *post-facto* material, mainly of a statistical nature, has been made available in recent years.

I am aware that much more could have been said on the ratio and on the monetary policy of the Government of India and a much deeper analysis made of the outstanding facts and figures than what I have attempted in this book. However, the subject-matter of this book is based upon a recent series of articles contributed by me to the *Indian Finance* of Calcutta, the main purpose of which was to discuss this problem anew in as non-technical a manner as possible. Thus, this book is addressed to the general public, including students, commercial men and politicians, rather than to that section of the faculty of economists who are accustomed to harder thinking. Elsewhere, in economic and statistical journals, I have dealt more thoroughly with some of the topics discussed here; I, therefore, refer the inquisitive reader to those places.<sup>2</sup>

It is a sad commentary on the politico-economic situation in the country that the Government should insist on repeating the same shibboleths over and

<sup>2</sup> See, in particular, *Indian Journal of Economics*, July 1935 and January 1936; also *Sankhya*, November 1938; and *Indian Finance*, Reserve Bank Supplement, April 1935.

over again, although they have been refuted times without number. These shibboleths have again been fully disproved and laid low in this book. It is a happy sign that the Congress is now seised of the question, so to say, and that it is turning its attention, in an ever-increasing measure, to these problems of economic importance to the country. The ratio question, to my mind, is no longer one to be elaborately threshed out in an academical fashion; it has, on the contrary, become a purely *political* question, which has to be settled by a trial of strength, rather than by wordy argument. The supreme callousness and disregard, with which the Government has been turning down all requests even for an impartial enquiry (such as the one implicitly promised by the Preamble to the Reserve Bank of India Act), in fact, suggest that this is the only line of action invited by our monetary dictators of Simla and London. It is to be sincerely hoped that the new Democracy, which is arising in India, will strike and strike decisively at this obnoxious hegemony of London *haute finance*, and, in the not very distant future, attain that financial sovereignty, with which alone we can shape the monetary policy of India to suit the requirements of our *national* economic system and without which any political power must remain a hollow mockery.

The book could not have come out under more appropriate auspices, in view of the fore-

going remarks. I am deeply grateful to Pandit Jawaharlal Nehru for his Preface which, if I may say so, is characteristic of his dynamic mind. Thanks are due to the Editor of the *Indian Finance* of Calcutta for permission to utilise and reproduce my articles on "The Rupee Ratio Reconsidered," which recently appeared in that Journal. Kitabistan, the premier *national* publishing house of India, deserves to be congratulated on producing this little volume in such excellent style.

*Allahabad University*  
January, 1939.

B. P. ADARKAR

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