debts, clean—completely and thoroughly. The Drain is a very real thing, Oh! for the shades of Dadabhai Naoroji and Ranade, and this will add to the poverty and the low income of the people of this country.

Lest we be accused of exaggeration and of unreasonableness, it is but enough, if we refer to how Englishmen themselves feel about the £30 to £36 millions which they have to remit to America every year. They are themselves now under the harrow and they must sympathise with Indians unless they are crassly selfish-natured. The settlement of American debt has been acclaimed as the greatest act of honour and integrity which no other nation can emulate, though there has been opposition to it from two extremes. As I have stated before, some Americans hold that England has hoodwinked America by making the latter forego half the debt. But there is Mr. Lloyd George who has definitely stated, there was no hurry to settle this debt and that he would not have settled it till the Allies paid their dues to England. This is a kind of repudiation and we have therefore a supporter in Mr. Lloyd George. Will England generously forego her claims on poor India? It is perhaps easier for a camel to pass through the eye of a needle than that at any time England would bring herself to renounce her claims specially on India, even though 90 per cent. of them are thoroughly unjust. If rich England turns a deaf ear to this modest demand, poor India will continue to be an economic slave to England for an indefinite length of time just as she had been for the last one century and she will have to puff and sweat and pant to meet these ever-growing Home Charges or tribute levied on her.

It is interesting to note how Englishmen feel about the £30 millions due to America, a sum almost equal to our Home Charges. What applies to England applies to India in still larger measure. One English writer says,

> "Payment can only be by way of goods, or services, both of which the workers must supply and go short by this amount."

An English paper writes,

> "Money sent out of the country is money lost to the industry of the country."

Mr. J. M. Keynes, the famous economist, has graphically described the results of this payment in words which can be easily applied to Indian conditions and needs. He says,

"It scarcely requires illustrations to bring home the magnitude of this burden. We shall be paying to the United States each year for sixty years a sum equivalent to two-thirds the cost of our Navy,. nearly equal to the State expenditure on Education, more than the total burden of our pre-war debt, more than the total profits of the whole of our mercantile marine and the whole of our mines together. With these sums we could endow and splendidly house every month for sixty years one university, one hospital, one institute of research, etc. etc. With an equal sacrifice over an equal period we could abolish slums and re-house in comfort the half of our population which is now inadequately sheltered."

So then, all these years, our people have been really deprived of their comfort, of greater expenditure on education, sanitation, hospitals, etc., and till this bleeding is stanched, the condition of India's masses will be one of unrelieved gloom. While they set up such whining and squealing even with all their riches, how conscienceless the Englishmen are, in piling up great burdens on India like increased interest charges and War Office payments with the egregious Lee Commission bringing up the rear?

To sum up, we are now paying Rs. 45 crores on Home Charges instead of Rs. 14 to Rs. 20 crores and when the Blackett scheme of redemption of debt comes into operation, we will be paying Rs. 2 to Rs. 3 crores more.

V

Till now, we have dealt with loans and interest charges as between India and England. Coming to the total debt services, they reveal a parlous state of things after 1919-20. Sir Basil Blackett and the Inchcape Committee compare the total debt at present with that of 1913-14 and attribute part of the growth of the unproductive debt to the war contribution and part to the deficits. India does not grudge this £100 millions and her financial position was so strong that this sat very lightly on her. Our difficulties did not at all arise with that gift. We therefore take our stand from the year 1919–20. To pay up this contribution, the rate of interest for internal loans was 5½% in 1917 and 1918 and it actually decreased to 5% in 1919.

The rot set in after the Reverse Councils sales hopelessly despoiled the country of its resources and monetary strength, and one of the results was the gift of Mr. Hailey to India of 125⅓ crores of 6% loans in three years, 1920–22.

The following table gives a true idea of the "great burden on the tax-payer" as the Inchcape Committee put it.

Year.	1919-20.	1924-25 (Budget.)
Sterling debt	Millions £192·6	Millions £279
(all figures below are in crores of Rs.)		
or in Rs.	288·9	419·2
Rupee debt	376·4	507·3
Total debt ...	665·3	926·5 −665·3
Increase in debt		261·2

Interest charges.

Total ...	30·38	42·6
England ...	12·1	18·0
Unproductive debt ...	14·8	18·32
Railways ...	13·14	19·0
Net interest on ordinary debt after deducting interest receipts ...	6.8	15·15

The figures are subject to any slight modifications, the difficulty being the £1=Rs. 10 rate in 1919-20.

These figures speak for themselves. In 1919-20, the Afghan War was over. There was no excuse of war to plead in the later years. This is in strong contrast with the policy adopted in England. Mr. Philip Snowden, the Chancellor of the Exchequer in England, in the course of his budget speech in the House of Commons, said,

> "The total debt reduction, external and internal since December 1919 was over 650 millions or practically the amount of the National Debt at the outbreak of the war. (Cheers.) That was a wonderful and most creditable national achievement. (Cheers.) Moreover large debts were owing to us. (Loud cheers.)"

He also added that the interest charges have been reduced by 40 millions. Is there anything which Mr. Hailey did or even Sir Basil Blackett is doing that we can recall with pleasure and that a Legislature would welcome with cheers? Our finances have been managed in a different way. Instead of reduction for which great possibilities presented themselves, the "deadweight debt" has increased by 261 crores in five years, while the debts owing to us have vanished, or, are in danger of vanishing if the Gold Standard Reserve is operated on in the same manner. (We shall revert to this later on).

It will be asked what has Reverse Councils to do with increased debt and interest charges which are due to productive expenditure no less than to the deficits of these years? First, taking the interest charges, the direct result of the policy of 1920 was the flight of capital and the high rate for internal loans. If there had not been this bit of Governmental lunacy, the rate of interest should have been 5% or even less than 5%, at about 4½%. On the 125 crores 6% loans, India is paying 1¼ crores annually more than otherwise. Under normal circumstances, the interest rate would have come to 4 and 4½%, and including the recent loans of 5% interest, India is paying 1½ crores more every year. Under sterling loans, the unnecessary high interest due to 7% and 6% loans, which India is paying, will be about a crore. On the whole 2½ crores is wasted on high interest charges. This matter is of special importance in view of the vain boast that Sir Basil Blackett made at the time of Sir Sivaswami Iyer's censure motion on the Alliance Bank affair and of the great play he made on the "consequent reaction of Alliance Bank failure," on "the favourable conditions in the money market both in London and in India." Sir Blackett then said,

"The London loan for the Railway purposes was urgent and was to be floated, when offered the most favourable opportunity. After May the bank rate went up from 3 to 4 per cent. and gilt-edged securities were quoted low. If therefore the Alliance Bank failure had precipitated a financial collapse the loan in May would have been postponed and if raised now, it would have cost a crore more than in May. Thus at least a crore had been saved by the Government's action."

He spoke in the vein that this most paternal Government deserved our undying gratitude and that he himself was conscious that a statue would be a fitting reward for his capacity and his solicitude to our behoof. In all humility therefore, may we ask him what he thinks of the 6% and 7% loans, of the increase in total interest charges by 12 crores a year, or if the so-called productive debt is excluded, of the increase of 4 crores of interest on ordinary debt? The increase in the interest on unproductive debt for 1924-25 may be more than by 4 crores as it looks an under-estimate as compared with 1923-24. But, taking the net interest paid on ordinary debt after deducting interest receipts, we find that it is costing India about 9 crores more each year. Strangely enough, support is given to this deduction in Mr. Hailey's Budget speech in 1921. He has always tried to minimise the losses arising from his policy, but in the very few luminous moments that he allowed himself the luxury of, he accepts certain results. In the Budget speech in 1921, under the heading 'Deterioration of Position', Mr. Hailey says,

> "(i) Loss of interest receipts (owing to the ear-marking of interest on Paper Currency Reserve investments to the discharge of Treasury Bills issued to the Reserve to cover the loss from revaluation of sterling holdings in it).
>
> * * * * *
>
> (iii) Increase in interest charges (while formerly the bulk of our investments of the Paper Currency Reserve was in British Treasury Bills, on which we received interest, the bulk of investments now is in the form of Indian Treasury Bills, the interest on which is ear-marked for a definite purpose.)"

Though the proposal under No. 1 has been kept in abeyance after 1920-21, indirectly the burden caused by the cancellation of Indian Treasury Bills in the Paper Currency Reserve has fallen on the Indian Revenues—which question will be dealt with presently. The result, however, is all the same and the net interest paid on debt which was 6·8 crores in 1919-20 has gone up to 15·15 crores or by about 9 crores. Just as Sir Blackett claimed that he saved 1 crore on interest charges in the Alliance Bank affair, so also in regard to the sale of 2 millions gold, he claimed that such a step would bring in substantial additions to the Indian revenues. We were told in a *Communique* that " the Government of India see no sound alternative to making such investments in short term securities of the British Government." Sir Basil Blackett enthusiastically stated, during the course of his speech in Bombay in December 1923,

> "First, we convert a non-interest bearing asset into an interest-bearing asset. Second, we increase our sterling assets both by the sale price of gold and by the interest earned on the securities in which it is invested, and so reduce the amount to be remitted to England and *pro-tanto* postpone or avoid the necessity for sterling borrowing."

Is there anything which is more condemnatory of the policy of 1919 and 1920 than the above and will Sir Basil Blackett tell us what he thinks of the 9 crores additional interest we are paying every year? This loss could have been easily avoided if the policy, he enunciates now, had been then remembered. Why then, did the Government of India first sacrifice the interest receipts from sterling assets and later on have recourse to sterling borrowing and why do they now show such extraordinary and belated solicitude to get interest from sterling investments?

There is one other item under the heading of interest which I shall just mention here, though it may be discussed in a more appropriate place at some length. That is about the interest on the so-called productive debt on Railways. The following figures would show that, in spite of Sir Basil Blackett's gibe at and recognition of, Railways ceasing to be productive, even under his control the Railway machine is running along in the same discredited rut:

In crores of Rs.	1922-23	1924-25 (Budget)		1919-20
Gross Receipts	93·22	97·06	+3·84	79·09
Net Receipts	26·56	29·49	+2·93	31·62
Interest on debt	16·34	19·00	+2·66	13·40

This is to show that the increase in interest on Debt is keeping pace with the increase in net receipts inspite of the large increase in fares and rates and to that extent, the additional debt incurred on Railways is a sheer waste, a mere deadweight debt. It looks then as if they have not heeded the warning given by the Inchcape Committee, and are wasting away much capital on open lines, on schemes of doubtful utility like costly remodelling of station-yards, workshops, etc. The revised estimate for 1923-24 shows a better return than the Budget for 1924-25, but if compared with 1919-20, the deterioration is such that the Railways require more careful looking into.

I am not sure whether we are not in for a period of gamble on Railways just as we had on Currency and Exchange. It is perhaps the turn of Railways, to India's misfortune. Sir Charles Innes and Mr. Hindley are not behaving quite in a way to inspire confidence and to dispel distrust; and Mr. Sim, the Financial Commissioner, is fast degenerating into the Mr. Cook of 1920 and 1921. U. P. seems to be a thriving ground for official casuists and sophists. This new and costly post was not created for this man to jump into notoriety and to show off his *hauteur* to perfection. However shallow an Englishman is, in India he is an expert and there is no humility in him.

VI

The deficits during the five years ending 1922-23 have been about Rs. 100 crores and the deficits from 1920-21 have been Rs. 68 crores. This latter is in spite of new taxation levied to the extent of Rs. 42 crores. To what extent these deficits and additional taxation were the aftermath of the Exchange policy of 1920 would defy computation. To make an exact calculation would be too laborious a task even for the most experienced economist or accountant.

Mr. Hailey, in 1920, heroically stated that we are standing up to some present loss arising from Reverse Councils sales, to realise future gains at 2sh. That failed to materialise. In his Budget speech in 1920, he promised us a gain of 30¾ crores at 2sh. 4d. Instead, the average exchange for 1920-21 was less than 1sh. 8d. Not daunted by the course of exchange, he estimated exchange for 1921-22 at 1sh. 8d. But, really, the average rate of exchange fell to the woeful depth of 1sh. 3·8d., a rate less than any that prevailed during the last 20 years. The result of that bad accounting was that expecting huge gains, the expenditure on Military Services, on Waziristan and on Railways was vastly increased. But when the expected gains turned into a sure loss, the deficits were met by loans, Treasury Bills and increased taxation. Part of the deficits was due to the increase in interest charges which could have been avoided.

Here, I would like to ask one simple question of our rulers. By 1920 end, their exchange policy failed and they themselves admitted the failure and mistake and assured the Chambers of Commerce that the natural causes were proving too strong for them. If they had the slightest modicum of honesty, would they not have begun economising and cutting short their unnecessary commitments even in March 1921, instead of being forced by the Inchcape Committee in March 1923? Mr. Hailey should have put on sack-cloth and ashes instead of making that bravado Budget speech in 1921, should have resigned his post immediately or, if he had been a man of 'sense and sensibility', he should have gone to England and personally implored the War Office and India Office to spare India from further burdens. In 1924, Sir Malcolm Hailey, as Home Member, went to England and it is stated, he was canvassing in the Houses of Parliament for the support of the Government of India's position. That sort of mission, he should have undertaken in 1921 itself and should have fallen even on bended knees before the Home authorities imploring them not to dictate or force on India costly schemes and policies. He should have represented to them that the Exchange policy had ruined India's financial strength considerably and since they were themselves the instigators, they should hold up their hands in other directions. Besides, the previous year's Afghan War alone left us with a deficit of 23 crores, not to speak of the increased army expenditure of £8 millions or 12 crores in 1919-20. Neglect of obvious duty in this direction has entailed on India a loss of 30 crores in Waziristan operations alone.

My statement that a simultaneous attack was aimed at India from all sides like Mackensen's on Rumania is not certainly an exaggeration. I repeat that if they had left the exchange alone, it would have been all these years at about 1sh. 8d. and there would have been fewer deficits and lesser taxation. Sir Basil Blackett in his Budget speech, 1923, said,

> "Of the deficit for 1922-23, 5½ crores would have been saved, had exchange been at 1sh. 6d. and 9½ crores if it had been at 1sh. 8d."

This quotation is to show what we have lost by unnecessary and untimely meddling; but that would be no reason for raising the exchange hereafter.

Now that the budget begins to balance after almost reaching the limits of taxation, they have no thought of reducing the burden on the taxpayer; but the country has been committed to further liabilities in the way of increased salaries and allowances,—which it would not have grudged under happier and under more honest conditions.

From the above, which can of course be amplified to justify us still further in our conclusions, it will be seen that the deficits and the unproductive loans are mostly due to Governmental action. But, from the wreck there is luckily a good portion which can be salvaged. And, to that extent at least, the return to the ratio of 1sh. 4d. in the Paper Currency Act, should be welcomed. An official memorandum almost supports us and gives us hope in the following words:—

> "The loss resulting from the revaluation of gold and sterling securities in the Paper Currency Reserve should be regarded as real except to the extent* to which there is an appreciation in the value of these holdings on the restoration of the old ratio of Rs. 15 per £."

Here, at least, is a method by which the Government can undo the wrong in some slight measure. In the name of reducing created securities—on the basis of which notes have been issued—from 62 crores in 1920-21 to 49 crores this year, a great burden has been inflicted on the people to the tune of 13 crores. When under the Paper Currency Act of September 1920, they had to revalue the gold and sterling securities at Rs. 10 per £, either they had to withdraw 18 crores of notes immediately or they had to issue their own Treasury Bills as a backing, about 18 crores being the difference in revaluation from Rs. 15 per £ to Rs. 10 per £. Once in a way, they chose the wise course but tacked on to it the rather unnecessary condition that these

* I quote it as it is in the print, though a slip modifying it slightly is attached to it in type-written form.

Treasury Bills or mere I. O. U.'s should be extinguished from the interest derived from the Paper Currency Reserve and Gold Standard Reserve or from ordinary revenues and loans. They have up to now reduced these I. O. U.'s by about 13 crores and this was effected first by means of the Paper Currency Reserve and Gold Standard Reserve interests and later on, even by using ordinary loans. In pursuing this will o' the wisp, 13 crores have been taken away from the people and used for a fruitless purpose called deflation.

Thank God, good sense prevailed in 1922 owing to the persuasion of Sir Montagu Webb and the interests from Paper Currency Reserve and Gold Standard Reserve are being used for revenue purposes instead of a suicidal policy of deflation. It is the only bright spot—absolutely the only one—in the whole financial nightmare that gripped us and even here too, Mr. Hailey had to be coerced as he called this act of using interest rightly for revenue purposes and thus relieving the burden on the taxpayer, as "an act of spoliation." This remark came with very bad grace from him. He was smitten with deflation-bubo. This utilization of the excess of £40 millions of the Gold Standard Reserve for revenue purposes should be used *ever* unless another jugglery sends it in the wake of the £55 millions Paper Currency Reserve. That this is also contemplated and is in a nebulous stage will be clear from the previous Budget speeches. This danger must be averted. As for Paper Currency Reserve interest, it is only a fictitious entry under revenue and expenditure, a paper transaction swelling both revenue and expenditure totals. Here, again, in the name of deflation or cancelling created securities, at no time should the interest be used as it would mean a self-imposed liability or additional taxation on the people.

To sum up, 13 crores have been wasted on pointless deflation, what should have gone towards the relief of the taxpayer and this amount is part of the deficits or the unproductive debt of the last few years. Now the result of the amendment of the Paper Currency Act to the old ratio of Rs. 15 per sovereign would be that it would release notes to the value of 18 crores—which would be called by some as inflation. At present £22 millions gold and £14 millions sterling securities cover notes to the extent 36 crores at Rs. 10 per £. With the ratio at Rs. 15 per £, the gold and securities would back up notes to the value of 54 crores, thus enabling Government to release 18 crores of notes more. This should not be used to cancel still more the I. O. U.'s; but, at least to the extent of 13 crores, notes should be issued and this 13 crores should be used to pay off a portion of the unproductive debt. Compared with other countries, 62 crores of created securities in the Paper Currency Reserve will be no inflation and, if there be any doubt about it, this inflation should be first effected and its result on exchange should be watched. Would the rupee depreciate in terms of sterling, would it cost Rs. 16 or 17 to purchase £1? That is the only test. If exchange under normal circumstances does not go below Rs. 15 per sterling pound, then the Indian Treasury Bills or the I. O. U.'s can be left untouched at 62 crores or so, and it need not cause any alarm. I am surprised that this immediate result of the proposed amendment has not been noticed at all in the various discussions on Currency and Exchange.

Personally, I would suggest exchange at 1sh. 4d. gold only for the sake of releasing these 13 crores to wipe off the previous debt incurred in deflating this amount. There should be no obligation to support exchange at 1sh. 4d. gold, i.e., above 1sh. 4d. sterling, but exchange may be supported if it falls below 1sh. 4d. sterling. The exchange at 1sh. 4d. gold should be operative only to sell Council Bills, to issue rupees in exchange for gold if exchange rises to 1sh. 4d. gold owing to natural causes. This carries with it as a corollary that at no time should the interest on Paper Currency Reserve and Gold Standard Reserve be used to extinguish created securities, but they should be used only for revenue purposes. The Gold Standard Reserve may be used to support exchange at 1sh. 4d. sterling, or, what would be more beneficial, the whole Reserve should be transferred in the form of gold to India, purchased in the world's market and not in the mischievously contemplated method of simply transferring Paper Currency Reserve gold to the Indian branch of the Gold Standard Reserve. Most of the above remarks may be quite out of place under this section, but since this has some bearing on the accumulated deficit and debt and since this opens a field of lessening the debt by about 13 crores at least, and of releasing for revenue purposes Paper Currency Reserve interest and Gold Standard Reserve interest for indefinite length of time, it has been discussed here. Of course, this deserves to be dealt with in detail under currency and exchange.

VII

Into what ramifications, this one act of the Government has led the country! To follow them up really beats one's brain or patience. The reader might perhaps be tired of the conjuring up of the details of what might have been. It is no doubt a fruitless task under the present circumstances. But certain ramifications must be explored, if not all. In this self-imposed task, there is but one measure of hope. The Grand Recorder of the Universe would have registered even to the millionth of a farthing or His chief instrument, the Law of Nemesis.

Generally, there is one sure test of the soundness of the financial management of a country and that is, the price of what is called gilt-edged securities or Government Paper. Sir Basil Blackett in his Budget speech, in March 1924, under the section of 'End of a bad era,' says,

"The improvement in our position is happily reflected in the improved market price of all our rupee securities. On the 15th February 1923, the 5 per cent. tax free loan 1945—55 was quoted at 88·10; on the 15th February 1924, it was quoted at Rs. 98. The quotation for the 5 per cent. loan 1929—47 has risen in the same period from Rs. 82·10 to Rs. 93·2. In 1923 we were able for the first time since 1919 to raise money by a long term issue, and the improved quotations which I have mentioned give us good reason to hope that we may do even better in 1924-25."

In his speech in the House of Commons, in June 1923, Earl Winterton gave instances of the benefits of a balanced budget and he adduced the improvement in Government securities as an instance. He claimed that,

"In February of this year 3½ per cent. rupee paper was 57, and it has risen to 65½, or a rise of 14 per cent."

I searched in vain for any such encouraging and reassuring remarks in Mr. Hailey's three Budget speeches and the significant omission was due perhaps to the fact that any such reference would be an act of self-condemnation and that, more than anything else, it would reveal the tragedy of his venture. It is to be doubted whether Mr. Hailey as Finance Member ever read the weekly trade and market reports or even the commercial columns of newspapers and trade journals. It was our profound misfortune to have had as Finance Member a man whose eyes were not glued to the barometer of the daily and weekly money market.

Now, let us see with what result. The 3½% rupee paper was at 65 in 1918 and as soon as the war ended, it rose up with a spurt to 81 in December 1918. But slowly it fell down to 71 in 1919 and showed a disposition to remain at that figure. But when the remitters nosed the high exchange and the possibility of Government coming to their help, they began to unload their holdings in Government securities and the result was that in the year 1919, the 3½% rupee paper fell from 71 to 62. After capital was forced out of India and money was made dear, it fell in 1920 from 60 to 52, the lowest figure ever recorded. After 1920, the 3½% paper has had a painful career of ups and downs slowly rising from 52 to 55, 62 and again falling until at last, it is to-day at 67, a price even less than that of 1919. Let any man of common sense examine and say what cataclysm, what catastrophe has occurred to India that our rupee paper which remained almost steady during the latter period of the war and even rose in value after the war was over, should have gone down so low after 1919. Likewise also, the 5% loan which was issued at 95 in 1919, came down to 90 in nine months and fell to as low as 77 and 78 in 1920-21 and 1921-22. The result was a great decrease in National wealth. Our position will be more clear if we take two typical extracts of how they calculate the growth of wealth in England. In March 1922, a cable stated,

> "War Loan Stock has reached the record of 98¾ as compared with 89½ in January 1921, an appreciation in fifteen months of £ 340,000,000."

To give another example, a City (London) correspondent wrote in 1923,

> "Ten representative British and Indian Government stocks increased their aggregate value between July 18th and August 20th by over £46 millions or by 1·4 per cent."

I can easily give hundreds of such careful records of the growth or otherwise of their national wealth in England, weekly, monthly and yearly.

Judged by this standard, while in England there was appreciation in national wealth, at the same time, the reverse was taking place in India. In 1919-20 our total internal debt was about 350 crores and the paid-up capital of companies was about 200 crores, including debentures. From 1919 to 1922, the fall in the value of securities had been by about 25%. So that on the 550 crores of holdings, the people had lost about 125 crores. If we judge from the market value of the companies' capital and debentures, the loss would be about Rs. 200 crores.

In other words, the country's wealth had depreciated. This was due to the 6% loans and the scarcity of money. The Bombay Government added their own quota to our troubles when they raised the 6½% loan in September, 1920. The *Capital* wrote adverting to this,

> "The policy of continually raising the rate of interest for every new loan floated is having a most detrimental effect and is beginning to scare investors out of the market."

> "The market for Government securities has been steadily falling away owing to the new Bombay loan and the probability of a 7% Municipal loan to follow. There is scarcely any business passing, investors concluding that to invest in Government loans means almost certain partial loss of capital."

The Calcutta Committee on the rehabilitation of securities strongly criticised the action of the Bombay Government and stated,

> "The issue of 6½% loan of the Bombay Government makes the old and new stock-holders frightened to invest their money."

Apparently, the Bombay Government led by a self-willed and obstinate man, did not like to leave the monopoly of all such escapades to the Olympians at Simla but wanted to do its own little bit to India's undoing. What hateful enemies of India come to hold such posts as Governors and Finance and Commerce Members, receiving fat pay—a species of ill-gotten wealth—and doing no little disservice to the country, and after going 'Home' posing as an expert, everlasting! This remark does not apply to those honest Conservatives who hold that India is not fit for absolute Self-Government but who have a very high and honourable conception of their duties to India. Even Sir David Barbour, the veteran Ex-Finance Member was constrained to remark in September 1921,

> "I have no hesitation in saying that the management of Indian Finance gives ground for much more anxiety in the present day than it has ever done before in my experience and my

direct experience of Indian Finance began very nearly half a century ago." * * *

"A very large amount of money is required to carry out new work than would formerly have been the case * * and add to it the rate of interest twice as high as 7% instead of the old 3%. It makes a great difference whether you pay 7% or 3½% for the capital you require as it would mean more cost."

It is therefore in consonance with their fatuity that the Bombay Government opposed the selection of an expert to the Taxation Committee but recommended a 'Binomial Theorem' in his stead. Sir Basil Blackett ought to have known the Bombay Government should be the last body to be consulted on such a matter or to whose views any deference should be paid:

Under this section, might be included the losses that have accrued to companies by the high Bank rate of 7 to 9 and even 10%. How many companies have gone to the wall and how many infant industries have been killed we have no means of fully knowing. Even the Tatas complained that the rate of interest for working capital which was formerly 5 and 5½% had now gone up to 8%. We read of companies which were formerly issuing debentures at 6%, now being driven to issue debentures of 8 to 10%. It means less income to the shareholders and a consequent decease in the income, tax to be paid to the Government. Thus a vicious circle is created.

The reader might ask how all that have been written, came about. It can be briefly stated here, that they were due, first, to the flight of capital and, secondly, to the sudden deflation of 40 crores of rupees in 1920 and 20 or 30 crores of deflation in later years.

VIII

Now, let us turn into another direction in which the full force of the artificial rise in exchange, devoutly wished for by Mr. Ainscough, was felt and the loss arising from which has directly hit the very large body of merchants and traders. That is the enormous excess of imports over exports. This naturally resulted in the dissipation of national wealth as even admitted in official reports. The following figures would show how the trade situation developed after 1919-20, adversely to India and beneficially to England in particular :—

	Total (Crores of Rs.)		Trade with England (Millions of £)	
Year	Exports	Imports	Exports	Imports
1913-14	249	183+ 66	39	78− 39
1918-19	253	169+ 84	48	51− 3
1919-20	327	208+119	97	105− 8
1920-21	257	336− 79	56	205−149
1921-22	245	266− 21	33	100− 67

Usually, exports from India are more than her imports and she being a debtor country and having further to pay in the shape of Home charges, the excess of exports must be maintained, if she is not to be come more involved in debt. This aspect was clean forgotten by Mr. Hailey when his action led to a bonus of not only 25 per cent. as expected by Mr. Ainscough but even a bonus of 100 per cent., for imports. As in other respects, a belated recognition was made on the necessity for a trade balance on the right side and Mr. McWatters stated,

> "A favourable balance of trade is an important change in the right direction, especially for a country like India which has large external liabilities."

When as a result of high exchange and the false hope given by the Government of a permanently high rate of exchange, large orders

In trade with England the figures for 1919-20 and 1920-21 have been converted at 10 Rs. = £1.

were placed abroad, in one year, the favourable balance of 119 crores in 1919–20 was converted into an adverse balance of 79 crores for 1920–21. So far as the Government was concerned, to finance the Home Charges by Council Bills became impossible in 1921 and 1922, and the Government was forced to incur huge loans to meet them "as the Home Charges do not go to sleep", in years of adverse balance of trade and of manipulated exchanges, as the *Bombay Chronicle* put it. Never in the history of India was there such a scandal as that of incurring huge debts to meet Home Charges unless we go for a parallel to the dark days of the East India Company when in the years of depression, dividends were regularly paid to the stock-holders of the East India Company with loans raised, still further mortgaging the revenues of India. The Government descended for a time to the lowest depth of a heartless spendthrift having numerous dependants, who incurs further debts at compound interest to pay off old ones.

So far as its effect on national wealth was concerned, it is enough if we allow the Trade Reviews and Mr. Ainscough's reports speak for themselves. The Trade Review of 1920-21, says, "To what extent does this adverse balance of 1920-21 imply a dissipation of financial strength? The question is not easy to answer. It has already been explained that the bulk of the imports during the year represented the execution, on a falling rupee, of orders placed when exchange was high. But although each such order represented a loss in view of the steady fall both of exchange and prices, and the consequent locking up of capital (to higher amounts than had been earmarked at the time the orders were placed) in stocks which might never return even the expenditure originally estimated, India's financial resources as a whole had emerged successfully from the war and she was better able to face the prospective loss than she would have been eight or ten years earlier." * * *

"Thus the year 1920-21, which has apparently opened well, closed in a state of serious depression which at the time of writing, has become stagnation in many lines of trade. In all the circumstances, failures of individual firms have been surprisingly few—additional evidence of resources built up during the war." (Failures had occurred on a large scale after the report was written.)

The serious losses with which the importers were faced owing to the fall in exchange have been graphically described by Mr. Ainscough himself.. He says in his report for 1920-21, under the heading 'Economic Depression',

> "In the meantime, the enormous volume of high-priced goods ordered at various times since the Armistice arrived at Indian ports in unprecedented quantities, the gross total value of the imports during the year being actually double the average of the five preceding years. This flood of imports coinciding with a slump in the export trade resulted in an excess of imports of merchandise of 79 crores. * *
>
> Importers were consequently faced in most cases with extraordinarily heavy stocks of piece goods, metals, hardware and general imports purchased at the top of the Home market at a time when exchange was in the region of 2sh. and over and these goods arrived to a stagnant market with exchange standing at about 1sh. 3d. or 1sh. 4d. In most cases, importers and dealers were either not able to or were unwilling to fix exchange at the time of placing the order, with the result that they had to meet losses varying from 50 to 70 per-

cent. on the cost price of the goods. Moreover, in as much as the prices in the producing centres had fallen considerably, there was the additional menace of their being undersold by more recent purchases. Seeing that they were obliged to face losses which in many cases they were utterly unable to meet, the Indian importers, in Bombay, Delhi and elsewhere, sought for a means of escape."

This last remark is in reference to the demand for settlement at 2sh. or for repudiation of drafts. The imports which used to be only about 180 crores, reached the enormous total of 336 crores, and of this sum only 30 crores were left overdue pending settlement at 2sh. rate. They were not satisfied with the settlement of 300 crores of imports but straightaway began to charge Indians with lack of commercial morality. In this game, Mr. Hailey the author and fountain source of all this mischief, most unabashedly joined, instead of hiding his diminished head in shame and instead of realising the "menace" of the huge losses they were put to.

But Mr. Ainscough, prudent and able as he has shown himself to be—wish the I.C.S. could produce such a man—took a more charitable view on the results of the enormous inflow of foreign goods and the ruinous prices at which they were moving. He wrote,

> "The losses to be liquidated, however, are so heavy that it is only to be expected that there will be a residuum of dealers utterly unable or unwilling to meet their commitments. It is possible therefore that we may see a number of failures towards the close of the year."

The lie to the charge that Indian dealers were shirking payment due to pure cussedness and not to sheer inability has been given in an official report itself. The Income-tax report of Bombay has the following :—

> "The sudden and rapid fall in exchange about the beginning of the accounting period for the year 1922-23 involved the majority of the importing firms in heavy losses. Dealers in piece-goods and hardware in particular suffered considerably and the revenue collected from them showed a corresponding decrease."

Part of the troubles arose on account of our own countrymen. When, to her precedented gain, Lancashire doubled and trebled her exports, major portion of that was no doubt stimulated by the cupidity and stupidity of our huge army of retail dealers—a brood of not unmixed blessing to India. Here, it may be pointed out that if it were not for the wholesale and retail dealers in India whose number is legion and who have penetrated every village, Lancashire and other foreign suppliers can never have half the custom they have at present; and Lancashire showed real ingratitude when it charged the Indian dealers with commercial immorality or dishonesty when the latter were not able to take delivery of the goods due to their very high price at a low exchange. After 1920-21, there was a rapid decline in all imports. This was not a case of vaulting greed that overleapt itself. The vaulting greed is always there; Lancashire and other parasites on India knew that if once they got a good foot-hold under the support of high exchange in India, their position would become safely entrenched against all indigenous competition.

So far as England was concerned, the result was as was expected by Mr. Ainscough and as was planned by the vested interests in England. The Trade Review of 1919-20 contains the following extraordinary statement:—

"The most satisfactory feature of the year's trade is the strong recovery made by the

United Kingdom. Competitors crept into the market while her manufacturers were pre-occupied with more vitally important matters, but they have not been permitted to consolidate the positions they won during the artificial conditions created by the war. Imports from the U. K. were valued at Rs. 105 crores an increase of 36% over 1918-19, though still 11% less than in the pre-war year 1913-14. By far, the largest item of the imports is cotton manufactures in which Lancashire holds a commanding position. The value of these cotton manufactures amounted to Rs. 51 crores or 48% of the total imports from U. K. as against 42 crores or 55% in the preceding year and 60 crores or 51% in 1913—14."

It passes one's understanding why a trade report of India should express itself in the above manner. Such a language is befitting Mr. Ainscough's reports. Will we be wrong if we hold that the Finance and Commerce Departments seem to think as if their salaries have been placed on the British Estimates and they are only branch offices in India for the interests of the city of London and that they are here as conduits for the drain of India's wealth into England?

And in 1920-21, the value of imports from England was doubled and what was only £51 millions in 1918-19, and £105 millions in 1919-20, increased to £205 millions in 1920—21, quite an enormous sum beyond the capacity of India to bear or to digest.

Already, attention has been drawn to the first report of Mr. Ainscough as affording a clue to the recommendations of the Babington Smith Committee. No wonder that in subsequent reports, he reviews the outcome with pardonable satisfaction and patriotic ardour. He writes,

> "The rise in exchange considerably enhanced this purchasing power. The natural result was that orders on a prodigious scale were placed in the U. K., U. S. A., Japan and other countries."

* * *

> "The high exchange, however, synchronising with an unprecedented volume of demand for imports which had accumulated, both during and immediately after the war, resulted in the purchase of enormous quantities of manufactured goods in the U. K., U. S. A., and elsewhere."

"The recovery made by the United Kingdom has been most remarkable. Her share of the total trade is now 44 per cent, that is 3 per cent., above the pre-war figure. Her share of India's imports has increased from 46 per cent, in 1918-19, the lowest proportion touched during the war, to 61 per cent. in 1919-20 and is now only 3 per cent. less than in 1913-14. In 1920-21 the United Kingdom shipped to India no less than £204,000,000 worth of goods of which about 95 per cent. represented manufactured articles. During the past year cotton yarn, piece-goods and other manufactures of cotton accounted for 40 per cent. iron and steel 10 per cent., machinery 8½ per cent., railway rolling stock and plant 6 per cent., and the balance covered a very wide range of manufactured goods. * * *. Under almost every heading of trade, the United Kingdom recovered her position during the past year. The satisfaction with which one surveys this recovery is, it is true, clouded by the contemplation of the very heavy stocks in this market. Nevertheless, the stocks of foreign competing goods are just as heavy, and the really encouraging feature of the situation is that, for the first time since the war, British

shippers have been on equal terms with their new foreign competitors and have recovered their trade to such an extent that they are now within 3 per cent. of their pre-war position."

Englishmen began to congratulate themselves that the manipulation of exchange to their benefit resulted in "the great volume of accumulated orders liquidated last year by the heaviest shipment ever made by the United Kingdom to India amounting in the aggregate to no less than £204,000,000." No wonder, as the favourable balance of trade to England which used to be only £30 or 35 millions just to cover the Home charges and which was only £8 millions in 1919-20, reached the gigantic total of £150 millions in 1920-21 and £67 millions in 1921-22. To that extent, India parted with her wealth to England, and dissipated her war-time savings and the latter benefitted by this dumping over India of about £150 millions more of goods, which was a record by itself.

The consequences of all this have been two-fold. One is the disastrous effect on infant industries in India. Here, again, we shall quote the unimpeachable authority of Mr. Ainscough. He writes in his later report,

"The increase in the imports of manufactured

goods at relatively low rupee prices, due to the exchange, has forced a few industries which were floated during the war * * to reduce their prices to an unworkable level and many of them are already in financial difficulties."

And whatever industries escaped the blighting effect of low-priced foreign goods are now being ground down between the upper and nether millstones, of financial stringency, high income-tax and super-tax and high Bank-rate on the one hand, and of increased railway rates, on the other. Apparently, in this cannibalistic process, Sir Charles Innes and Mr. Hindley do not like to be left far behind Mr. Hailey, (of 1920 fame).

The other is the enormous losses which the merchants had to incur, to which reference has already been made. Here, its effect on national wealth is considered. The Currency and Trade Reports for 1920–21 are ominously silent as to how the adverse balance was met and how the exporters in England and other countries were satisfied. Part of it was no doubt met by the export of gold and silver from India. The real explanation lies in the fact that enormous capital found its way into India from England, as exchange was favorable in 1921 and 1922. A major portion of it was that brought back by the remitters or beneficiaries of the 'organised loot' themselves, thus meeting the exporters' bills in London. The 'considerable profits amassed by the Indian merchants'—as if English merchants did not amass vast profits during the war in India—proved an eyesore and these people were given the consolation "they could meet the prospective loss." Oh Indians, who are you to accumulate riches when we were otherwise engaged? now disgorge them, that seems to have been the prevalent feeling. To meet these liabilities—other than the cases of total failures or insolvencies—Indian merchants must have parted with stocks, shares and holdings both in Government and Industrial securities and these must have been snapped up by those who transferred and retransferred their funds to India. The Englishmen's profits were safely remitted to England with Government help and that too, with some more gain in the process; the Indian merchants' profits were also swept into the former's maw when disaster overtook the latter. Oh! the unmatcheable ingenuity behind it all!

Careful readers of financial journals must have noticed that both in 1921 and 1922, Englishmen were asked and encouraged to buy rupee securities and a strenuous agitation was kept up to that purpose—not daunted by the non-co-operation movement, though this fear was hypocritically conjured up for the 7% loan. Before 1920, it was estimated that half of the Government debt was held by Indians and half by foreigners. Likewise in shares, at least one third must be by the latter. And if a compulsory examination is made of the Government Loans register, of the Share register of all Companies and of Bank deposits and if a comparison for the years 1919 and 1923 is made, it will be found that, barring the loans and capital raised between 1920 and 1923, at least 50 crores worth of holdings would have been surrendered by Indians into foreigners' hands. To that extent, the inexorable and remorseless grip of the foreign bondholder has tightened itself still further and Indians have lost 50 crores and thus lost valuable ground in their own country. What a lot of wealth must have been transferred from the Nationals' hands into the aliens' in the most insidious manner possible! Let anybody disprove it, especially Sir Basil Blackett who fights shy of all demands and requests for enquiring into the Indians' position in their own household. So then, the transparent honesty with which he is credited by some, develops cold feet and oozes down.

One other result must have emanated from all this. Since Indian merchants suffered huge losses, their credit had sunk. Not only had they to part with previous profits and holdings, but in most cases they had to wind up or curtail their share in the import and export trade of the country. Mr. Ainscough is nothing, if not thorough, and in his all-comprehensive reports —he is such a fearful grabber and whole-hogger—has advocated that English merchants should try to acquire a large share in the whole-sale import and export trade of the country. We may therefore take it that European firms and merchants have displaced Indians even in what little share they had in the wholesale import and export business of their own country. That means less earning power to Indians, less profits made by Indians. With that flair for impartiality which Sir Basil Blackett affects so much, he refuses to make enquiries as to how many of the Income-tax assessees, are Indians and how many, Europeans and as to how much, each pay into the public exchequer. Such an attitude is hardly becoming a man who comes from a country where, to the politicians and Treasury officials, statistics are the very breath of their nostrils. Besides, it is utterly inconsistent with the Statistics Bill now proposed. If, in addition to the Income-tax position, an enquiry is made as to how much of the Bank deposits and Rupee loans is held by Indians, that would reveal their true position and as to how far they have deteriorated since 1919. Such an enquiry is essential in view of the astounding statement of the ex-Governor of Bombay that India has grown vastly richer, though he contributed his share to the impoverishment of India.

IX

Give a dog a bad name and hang it.' This hackneyed saying comes to our mind when we think of the Englishman's complaints against India, some of which have reached the dignity of veritable and hoary superstitions. One of them is, 'India is the sink of precious metals'. There may be some little truth in it. Though India has been the absorber of precious metals since the days of Pliny, still she remains one of the poorest countries in the world. This aspect apart, the above-mentioned superstition has been worked to such outrageous lengths that India has been deprived of the gold that was even justly due to her. This was a perennial source of grievance against England before the war, though India could then get whatever gold she wanted for non-monetary purposes. Due to the exigencies and dire necessities of the world war, every nation conserved its stock of gold and embargoed all exports of gold. Even then, India with her large balance of trade would have drawn upon the world's gold supply; but to help England to win the war, India accepted all the restrictions placed upon her by English financiers, in the most loyal and cheerful spirit. Indeed, during these five years, there was not the slightest whisper of protest against the imposition of such a policy. But the melancholy part of it is, this docility was taken undue advantage of and she was rewarded with rank ingratitude as in other respects.

As soon as the war ended, the market for gold became more or less free from all restrictions and all the countries began to settle their balance of trade by imports and exports of gold with the one exception of India. She was held down as ever at the dictates of the City of

London and the result was that instead of recouping at least that quantity of gold which she denied herself all these years, an attempt was made to pinch the little gold she began to acquire. The following figures would prove what we set out to explain, about gold imports and exports:—

Crores of Rs.

Year.	Fav. Bal. of Trade	Imports.	Exports.	Net Imports.
1909-14 Average	78	32·79	4·64	28·15
1914-19 Average	75	12·14	4·26	7·88
1919-20	122	48·25	12·92	35·33 (16·33)
1920-21	−79	23·57	21·46	2·11
1921-22	−21	13·82	16·68	−2·86

Here one fact may be stated, that out of the 35 crores of net imports of gold in 1919-20, about 19 crores belonged to the Government and went to the Paper Currency Gold Reserve which increased from 17 to 36 crores. So then, the net private imports for 1919–20 amounted only to 16·33 crores as given in brackets.

Certain inferences lie on the very surface. The amount of gold which India had to forego in the war years was about 100 crores. This was primarily responsible for the great inflation of currency and credit, for the huge growth of silver coins and currency notes and for the rise in prices. As the Currency Committee sententiously remarked "the dearth of gold created a strong demand for silver." Like all other observations of that Committee of astute benefactors, this is but a half-truth. We were forced to accept silver with the promise that 80 crores of sterling investments would be released in the form of gold. When the time came to redeem the promise to pay, and as we have already proved, England joined the glorious band of defaulting debtor nations—the product of the after-war era—though she would never own it. The immediate results of that denial of gold were the rise in the price of silver against India herself—a self-imposed disability—the rise in exchange, the Babington Smith Committee and the temptation to utilise the rise in exchange in all possible ways to the benefit of England.

But from 1919 there was no need to pursue the same policy of denying gold to India, unless we go to the clue afforded by Mr. Moreton Frewen. Why should they still go on immersing India in vaults of silver and allow her only 16 crores of gold in spite of her 122 crores of favourable balance of trade in 1919-20? In the two later years, this country which was called the sink of precious metals, exported as much as she imported and India made no addition in these two years. All the time, quite the opposite policy prevailed in England. The Cunliffe Committee recommended the conservation of capital and the accumulation of 150 millions of gold in the Bank of England reserve. These are the two precautions which were taken in England after the war and to achieve these objects, the Bank of England rate was raised to 7% in 1919-20 and 1920-21. The Bank of England gold reserve rose as follows (in round numbers):—

Sep. 1918.	Sep. 1919.	Sep. 1920.
£68,000,000.	£88,000,000.	£123,000,000.

That is, in two years, the Bank of England reserve increased by more than £55 millions, or 82 crores, not to speak of imports of gold for non-monetary purposes.

It will be said that for the last two years, India has been importing large quantities of gold unhampered by any restrictions. Our chief cause for complaint, in 1919, arose more from the point of view of exchange than with a desire to hoard ingots of gold. Indeed, the alternative suggestion was made that if it was against England's interests to allow India to disturb the gold market, at least India's securities in London could have been mobilised and placed at the disposal of its natural owners. But this would be against their policy of eternal exploitation, of draining India's life blood to their advantage. Even the Bengal Chamber, annoyed by the constant rises in exchange, wrote in a strong memorandum as early as July 1919 as follows:—

> "The extent to which India should use gold, must in our opinion, be decided solely in accordance with India's own needs and wishes. * * * What the Chamber now urge is that the right of India to free importation of both gold and silver should be recognised."

The Exchange Banks also suggested that if only the Government were to raise the acquisition rate of gold, more gold would pour in and thus the exchange situation would be eased. Sir J. Jeejeebhoy, representing Indian Commercial opinion, demanded that India as a creditor country must be allowed to draw the gold and silver she wanted and that the Ordinance prohibiting imports of gold should be revoked. All this fell on deaf ears as it would have interfered with their premeditated policy of manipulating exchange to dizzy heights in 1919 and 1920—with the results portrayed before. Curiously enough, in December 1920, when it was too late, the Government of India in a *Communique* stated they accepted the views of the Bengal Chamber and fully endorsed their suggestion about the right of India to import gold.

I would not have pursued this rather unimportant matter at this length but for the fact that this sinister policy has again raised up its head in the recent sale of £2 millions gold from the Paper Currency Reserve. Except Germany which parted with £45 millions gold to pay for sheer foodstuffs in her miserable plight in 1919, no other country has used up a penny of gold from its reserve. England's gold reserve of £160 millions of 1920 (both Government's and Bank of England's) is being kept intact or untouched. While, America has increased her monetary gold from £500 millions in 1919 to £1,000 millions or by about £500 millions in five years. Mark this colossal sum. But our Government goes on pinching and dissipating our only stock of gold reserves of £24 millions or 36 crores, fictitiously called 24 crores. It is a wonder why England is so jealous of India acquiring gold but should take almost an unnatural, fiendish delight in allowing America to hoard on a vast scale. Why should not England allow her own dependency to acquire gold, at least as reserves, if not for private use?

The point is, she is obsessed with the idea of reaching sterling parity with gold, or in other words, exchange at par with dollar. My own guess why they sold £2 millions Indian gold in September 1923 is, that was the time when the £30 millions annual funded debt was remitted to America secretly and India's reserve was used as a pawn to see that sterling does not fall lower than 4·40 or 4·50, as otherwise it would have cost her more to convert this sum in dollars. On India, is to be cast the heavy burden of even supporting sterling-dollar exchange, and this is Machiavellianism, *In Excelsis.*

[If I were an Englishman, I would scorn such underhand and low methods. I would be a Liberal Tariff Reformer and look to Tariff Reform to gain this end. I have been long wondering at this funny side of English politics where even party principles get 'standdardised' as H. G. Wells would say Why a Conservative should be a Tariff Reformer and why a Liberal or Labourite should not be one, I don't see. You can be a Radical and still be a Tariff Reformer. Instead of coercing India, there are three or four methods by which England can ease her position with America. One is, complete repudiation of debt, euphemistically called, postpone paying the debt. That is now out of the question, though Mr. Lloyd George keeps this flag flying. The second is, prohibit the too much export of capital which keeps sterling low. But then this is also risky as not only against the canons of this nation of shopkeepers and capitalists but without their income on overseas investments this parasitical nation cannot get on. But some slight control would afford a little relief. The third is, don't worry about sterling parity with dollar exchange so long as it does not go below the fairly high rate of 4·50 or 4·40. The fourth is, imagine that the debt to America is £1,200 millions, instead of £1,000 millions and, this additional £ 200 millions, convert into gold and transfer it to England to back up still more the Bradburys or the Government notes. Let there be no deflation. And England can easily pay up this £200 millions out of her savings. Perhaps this may seem chimerical and I am getting beyond my depth. The fifth is the most important and that which really matters. It is a pity that the McKenna duties have been abolished. On the other hand, the duties should have been stiffened up, especially against luxury imports from America and heavy duties should be levied against luxury imports or imports of goods which can be manufactured within the country. This step is not as a measure of protection for all time, but to give the breathing time or the necessary momentum for England to regain her previous sterling-sovereign parity by correcting the adverse balance as much as possible. When this is accomplished, Cobdenism might well reoccupy its superior place in the Englishman's heart].

All this digression might seem unwarranted and quite out of place. But India has been well caught in the whirl of the international machine of high finance and currency. Even if she can escape it, England is too human or too shrewd—or, shall I say, unscrupulous—

not to drag us along with her. Besides, she, herself, is in a cleft stick or between Scylla and Charybdis with regard to India. If she allows rupee-sterling exchange to go higher than 1sh. 5d. or 1sh. 6d., it will no doubt benefit Lancashire and Birmingham, etc. But then, Indian demand would take the form of gold and gold imports would so increase that not only would exchange fall again to 1sh. 4d. but sterling exchange with dollar would be very adversely affected. I am quite convinced England never wanted a permanent 2sh. rate of exchange in India as it would mean such an intolerable drain of gold to India as Mr. Frewen feared—though, why she should not follow America in this respect, I don't see. I say this in spite of the obsequious pleading of Mr. Hailey in 1920. In his speech in the Legislative Council, in September 1920, he asserted as follows:—

"Could any London merchant, could anybody interested in the London money market, have signed this report if he was actuated by this feeling? Now we have been told not once, but a thousand times, that London grudges India its gold. Could he have signed a report which not only admitted of the free and unrestricted movement of gold to India but actually wrote down to such an extent that it was bound to create a demand for it far exceeding any that London had so experienced?".

Apparently, our friend had not turned to bay as in the later years; hence he spoke the above with the tongue in his cheek. This pious remark is all very well in paper. But when was it given effect to? The whole of 1919, there should have been free import of gold; but then the hidden hand prevented it. Even the acquisition rate was not raised and the Government sales did not form a fraction of the needs of India. Leave alone this. As soon as the Currency Committee reported, the first step to take should not have been the sales of Reverse Councils—how, in some detached moments, we laugh at the stark idiocy of the whole thing—but the recommendation of the Currency Committee itself on the 'Import and Export of Gold'. They wrote,

"*The provisions regarding the import of gold* were avowedly enacted under the stress of war and were only intended to be temporary. It is, in our opinion, desirable that the entry of gold into India should be freed from regulation or control by the Government."

This was perfectly ignored and effect was not given to this recommendation till it was too late; and, instead of lifting up the prohibition, at least simultaneously with the sale of Reverse Councils, in February, 1920, it was kept on till August. Meanwhile, the whole of India went mad over the the supposed cheapness of foreign goods and the whole nation parted with vast stores of accumulated wealth. When the restrictions were removed in August 1920—7 months after the Currency Committee report—what between the locking up of funds in the purchase of foreign goods or Reverse Bills and the tight money market due to active deflation, there was not enough surplus money to import gold. And Englishmen must have laughed in their sleeves, at the turn events were taking place according to 'scheduled time' and 'their own plans,'—to quote these two slogans in the western theatre of the Great War. More than anything else, this must have given satisfaction that India imported a pittance of 16 crores of gold in 1919-20, a miserable 2 crores in 1920-21 and even disgorged 3 crores in the next year.

I am much grieved to write all this, for I honestly subscribe to the view that India wastefully hoards, melts, buries the gold she lays her hands on. The only corrective to it is, more banks, more cheques and deposits, more wealth in the form of shares, securities and stock in a buoyant market. But the Government undermined the foundation on which these could be built, by their high interest loans, by undue deflation and by a high Bank rate. How can any one boldly broach this point of view to the people, that too much gold hoarding is wasteful when they have already lost 200 or 300 crores on shares and securities? They would prefer this 'non-interest bearing asset' to an asset whose value contracts and deteriorates—in no small measure due to Governmental action. I can mention a case in which a gentleman was persuaded to invest a decent sum in a steadily interest-paying industrial security which has fallen in value by 25 or 30 per cent. in sympathy with gilt-edged securities and irrational money market. He is blaming his advisers, as, otherwise, half of that amount would have gone to the purchase of gold, half to money-lending. He is holding on, hoping against hope to get back its old price. Everybody must have known of hundreds and thousands of cases of middle classmen, of even poor clerks investing largely in the boom period, but who have burnt their fingers. No wonder, that imports are increasing these two years, gold resuming its old place as a form of wealth.

The remedy is partly in the hands of the Government and partly of the people. While, on the one hand, Government affect much concern that capital resources are not fully developed and money that should be available as capital is being wasted away on gold, they do nothing to give stability, if not increase in value, to their securities. If the Idol-breakers and Thugs forced on the people the necessity of hoarding, the action of the Government during the last few years is hardly calculated to wean them out of that habit. Still, it is sickening to see the barbarous custom of wearing ingots of gold and silver and the Indian folk persisting in this childish custom. The Marwaris and Chetties are perhaps the greatest sinners in this respect. The Banks are crying aloud for deposits; the Savings Bank system is quite safe; while, the cash certificates are fairly profitable investments, especially for the middle classes.

Before concluding this section, reference must be made to the future gold policy of the Government. The silliest of silly things was the sale of £2 millions gold from the Paper Currency Reserve. Even the London Financial papers, taken aback by this queer transaction, gave it a sort of support as a matter of policy, but gave a severe hint that "this should not be repeated." I also acclaimed Sir Basil Blackett's appointment as Finance Member, but his salt tax proposal and the sale of Reserve gold show that he is no better and he has been well caught in the vice of the machine. We can safely venture the proposition that if Sir Basil had been Finance Member in 1920, we would have the folly of Reverse Councils, all the same. Is it not time therefore, that Indians should plump as the first step for all Reforms, that these two key positions of Finance and Commerce Memberships should be in the hands of Indians only? Any day, Sir Purushottamdas Thakoredas, Sir D. M. Dalal and others would prove better Finance Members than Mr. Hailey. This digression apart, not only should the £2 millions gold be immediately replaced, but also the balance of £8 millions which was left in the sterling securities in 1920 should again be made available and be transferred to India in the form of gold.

There is one dangerous footnote that is always appended to the statement of the Paper Currency Reserve, that is, 'there has been no transfer of gold from the Paper Currency Reserve to the Indian branch of the Gold Standard Reserve.' It means, as I understand it, the Paper Currency Reserve gold should be transferred to Gold Standard Reserve, by means of deflation. This was first mooted by Mr. Hailey himself in 1921 and whether good sense and the chiding of the Indian Merchants' Chamber, Bombay—do people know how much they owe to this splendid and wideawake body?—prevailed or whether Government themselves were horrified at their own suggestion, we do not know, but this was dropped. From his reply to a question as to how the Gold Standard Reserve should be brought back to India, it looks Sir Basil Blackett had this course also dangling in his mind. This ought not to be. Not only should the Paper Currency Reserve gold be kept intact and also augmented if possible; but also the Gold Standard Reserve should be brought in the form of gold, say, at the rate of £5 to £8 millions per year.

X

More than the reader himself, I feel a straggler in the pursuit of these details. Hence, we shall leave the tedious process of enlarging at length on each of our counts but simply mention a few more. But that would by no means exhaust the list as the visible and invisible items are too many.

They are the general trade depression, the liquidation of companies, the closing down of some industries (here, we shall not trouble the reader with figures as the Joint Stock Companies' reports generally appear in the papers); the loss in general revenue, the decrease under Customs, Income-tax and Railways first, and then made up by increased rates and duties; the tight money market, the high Bank rate, the low dividends of companies, or in many cases companies paying no dividends; the consequent low earnings or losses to the people and the Government. If there had been no Reverse Councils, there would surely have been exchange gains all these years. Besides, what is more important, our Services would have left us in peace, with exchange at 1sh. 8d. and I repeat for the 'thousandth time' as Mr. Hailey would say, there would have been no need for the Lee Commission.

Before concluding, special mention must be made of two or three miscellaneous losses One is that £9½ millions Postal and Money Orders went 'Home' in 1920-21 when exchange was high and £8½ millions returned from England when exchange was low in 1921-22. The loss to the Indian Exchequer is about 2 crores. Perhaps, this could not have been avoided. The other two are "Loss on war disbursements recoverable from His Majesty's Government and other Military transactions" and "loss in connection with the over-buying guarantee." To the extent, they are inevitable, it is no use raising the dust.

But some occasion has arisen for impugning the impartiality or honesty of those concerned in the settlement of these claims. In the Revised Estimate for 1920-21, it is stated that there will be a net recovery of £54,330,600 from His Majesty's Government on account of war disbursements as against a Budget Estimate of £36,125,000. In 1919-20, it was £58 millions and in 1921-22, £11 millions. Hence the presumption is that War Office payments were progressively decreasing from 1919 onwards.

And we have been assured that payments are being made every month at the current rate of exchange and that even large advances have been left with the Indian Government by the Home Government. In the face of all this, it is surprising to read in the Currency Report 1920-21 "that recoveries from the War Office varied from month to month, the largest amount being 11¾ millions in March 1921." Taking the average for 1920-21 and 1921-22, only £2 millions could have been spent in March 1921. It looks then that the Government of India were remiss in their duty and claimed the £12 millions in March 1921 when exchange was as low as 1sh. 3d. and 1sh. 2d. instead of earlier. This is one of those leakages—wilful or otherwise—in which the Indian Exchequer loses and British Treasury gains, and other examples of which have been unearthed by the *Leader* in two or three articles called, "At India's Expense." Not only has India lost in these transactions by the fall in Exchange in 1920-21, but she has been forced to incur further losses by settling £12 millions at 1sh. 3d. and 1sh. 2d.

Besides, why India should incur losses even on transactions on behalf of the Mesopotamian

Government, is not clear. Likewise also, why there should have been loss on gold purchase and sale, we are not able to understand. Here is a typical case for the vigilant Mr. Jamnadas Mehta M. L. A. to interpellate on in the Assembly.

Take the loss on the over-buying guarantee to the Exchange Banks. The losses on the two previous years might be justified, but the loss in 1920-21, which took the shape of 1·69 crores cash payment, smacks more or less of a hoax. That the over-buying guarantee, by itself, is a huge camouflage, if not a trick practised on India, will be clear in a later chapter when we deal with the havoc caused by remitters from India. The condition with the Exchange Banks was that Council Bills should be sold at a favourable rate within one year after the war was over. Why was it then prolonged to 1920-21; and why did it take the form of cash payment? How are we to reconcile the plea that Exchange Banks accumulated funds in London to relieve the pressure on the Indian Treasury, with the fact that in 1920-21, the Exchange Banks got £16 millions of Reverse Councils allotted to them? Thus, cash payments for fictitious Council Bills and gains on the £16 millions Reverse Councils at cent per cent. No wonder, that Exchange Banks paid huge profits and put aside substantial sums towards their reserves.

We have not invented or imagined all these losses to make the flesh creep. Those who ponder at the plight of the people at present, will recognise that a general malaise has overtaken the country, and with it, a deeply embedded poverty and consequent suffering. It is no exaggeration to say it looks as if all the ten plagues have settled on the financial and economic condition of the country. The results of Bolshevik experiments will certainly pale into insignificance before the widespread devastation caused by this one single act. Even the (London) *Times* admits, " the purchasing power of thé Indian has sunk to the pre-war level," The Government of India is generally compared to Micawber. Granted; may we then ask whether there has not been some Uriah Heep, that " Heep of Infamy," behind all this?

While such is the case, it is amusing to note that the gloomy condition of our finances has been attributed to Mahatma Gandhi. Sir Malcolm Hailey as Home Member repeated the catchword that " Mr. Gandhi was the enemy of the economic progress of India." The *Times* demanded the latter's head on a charger and opined that 'until Mr. Gandhi is tackled, the financial condition of India would not improve.' The *Pioneer* and the *Statesman*, the two watch dogs of India preached the same gospel in 1922 and came out with flaring head-lines, such as 'N.C.O. Agitation, Financial consequences. A Heavy Outlay.' 'The Cost of Agitation to India, Over 50cro res of Rupees.' The *Pioneer* wrote,

> "In the absence of extremist agitation, three-fourths of the additional taxation imposed in India during the past three years would have been avoided."

The *Statesman* wrote,

> "One of the chief assets of the Indian non-co-operation movement has been the increased taxation necessitated by recurring deficits in the Imperial Budget. It is unfortunate that the authorities have never attempted to turn the tables on the non-co-operators by proving—as they could, to demonstration—that three-fourths of the additional taxation imposed during the past three years has been directly due to the operations of the non-co-operators themselves."

Not satisfied with these, the demand went forth "grasp the nettle:" All these, do they not bear a striking resemblance to the scene in 'Macbeth' where the murder of Duncan is foisted on the poor guards? Besides, this is one of the most glaring examples of British (National) untruths. In justice to Mr. Hailey, it must be said, as Finance Member in his three dolorous budget speeches, he has himself borne the cross and has not shifted it on to Gandhi or others. (Here, I might make a confession that it is these blatant attacks and attempts at misleading the public as well as the continued gibe at Pandit Madan Mohan Malaviya by Sir Basil Blackett, as if he is wisdom and last word in Finance, personified—a gibe that would have disheartened a man of less tough fibre—it is these that have more than anything else impelled me to undertake this *expose'*.)

* * * *

In all that I have written, it might seem I have been particularly hard on Mr. Hailey. I have written more with sorrow and pity about him than with anger. To quote his own words, 'I have no animus against this unhappy and misguided man.' He is a martyr to England's greed; he has sacrificed his reputation at the altar of England's greater wealth—though from our point of view, much of it ill-gotten and hence, temptingly inviting to the law of Nemesis. He alone blurted out that he was called the "Enemy of mankind." In saying this, he has put himself on a higher pedestal. Such an appellation goes with Lenin, the ex-Kaiser, Napoleon, or Timur, etc. Whenever I think of Mr. Hailey as Finance Member, I am reminded of two characters, one in fiction, Job Trotter in 'Pickwick Papers,' the other in history, Muhammad Bin Taghlak. The world has not yet ceased laughing at Taghlak. Hereafter, in the place of Muhammad Taghlak, the world may laugh at Mr. Hailey. Herein, lies his place of immortality.

But, Sir Malcolm Hailey, the Home Member, is a distinct success. He deserves every word of praise bestowed on him by Lord Curzon, though we might take it that Lord Curzon was unaware of his finance membership. Sir Hailey's parliamentary gifts are really of a high order. He showed real sympathy and capacity as Home Member. It is to be hoped that, in Punjab, he would display the same traits, bring peace to that sorely tried province and prove himself a balm to the much-afflicted people there, victims of illusion as well as of treachery. (It does not mean Sir Edward Maclagan, one of the gentlest and noblest Englishmen, has proved a failure, though he might have kept a greater check on communal hatred). Let not Sir Malcolm Hailey take his stand on prestige of the *Raj*—to use this patronising word. It is to be hoped he will completely retrieve his lost reputation.

He should not have been appointed Finance Member. He should have become Home Member at the outset, for which he had undoubted abilities. But they wanted a tool and some elf behind him had been using him like that. The great banquet held in his honour in Delhi on the eve of his promotion to Governorship reminded me of the banquet in 'Macbeth.' And, if only some ghostly echo of Reverse Councils had been heard then, I could imagine Sir Malcolm Hailey getting up unmanned and unnerved and looking ferocious with all the fury of an unnatural fear, and saying,

> Thou canst not say I did it: never shake
> Thy gory locks at me !

BENEFICIARIES OF THE "LOOT."

STATEMENT SHOWING THE AMOUNT OF REVERSE COUNCILS SOLD IN THE YEAR 1920.

Date of Sale.	Amount sold at each sale in £.	Rate of Immediates. (approximately.)		Rate per £. (approximately.)	Market rate.		Share of Indians or, amount allotted to Indians.	Remarks.
		sh.	d.		sh.	d.	£.	
2nd Jany.	770,000	2	4		2	$3\frac{7}{8}$		(a) The share of
8th Jany.	990,000	2	4		2	$3\frac{3}{4}$		Indians for Janu-
15th Jany.	300,000	2	4	Rs. $8\frac{1}{2}$	2	3		ary is not given
22nd Jany.	2,000,000	2	4		2	$3\frac{3}{4}$		but it could not
29th Jany.	1,334,000	2	4		2	3		have been much
5th Feb.	2,000,000	2	9	Rs. $7\frac{1}{4}$	2	$7\frac{3}{4}$	287,000	as Indians' eyes
12th Feb.	5,000,000	2	11	Rs. 6-14	2	9	378,000	were not opened
19th Feb.	2,000,000	2	10		2	$7\frac{1}{2}$	533,000	then. Their share
26th Feb.	2,000,000	2	10	Rs. 7	2	$7\frac{1}{4}$	349,000	may be out of
3rd March	2,000,000	2	10		2	$7\frac{1}{4}$	332,000	£5·4 millions,
11th March	2,000,000	2	8	Rs. $7\frac{1}{2}$	2	5	536,000	only ·4 millions.
18th March	2,000,000	2	7		2	$3\frac{1}{2}$	648,000	
25th March	2,000,000	2	6	Rs. 8	2	5	503,000	(b) Calcutta
31st March	1,988,000	2	5		2	$3\frac{3}{4}$	339,000	alone got
8th April	2,000,000	2	4	Rs. $8\frac{1}{2}$	2	$3\frac{1}{8}$	246,000	£3,472,000 on

15th April	2,000,000	2	4½		2	3½	271,000
22nd April	2,000,000	2	4½		2	3¾	279,000
29th April	1,000,000	2	5⅞		2	3½	281,000
6th May	1,000,000	2	5		2	2	414,000
13th May	1,000,000	2	5		2	1	402,000
20th May	1,000,000	2	5½	Rs. 8	2	1	439,000
26th May	1,000,000	2	5		2	1	412,000
3rd June	1,000,000	2	5		2	1	363,000
10th June	1,000,000	2	5		2	½	389,000
15th June	1,000,000	2	4⅝		1	10	390,000
24th June	1,000,000	1	11½		1	10	288,000
1st July	1,000,000	1	11½		1	8¾	388,000
8th July	1,000,000	1	11½		1	10¼	337,000
15th July	1,000,000	1	11½		1	10	356,000
22nd July	1,000,000	1	11½		1	10¼	346,000
29th July	1,000,000	1	11½		1	10¾	260,000
5th August	1,000,000	1	11½		1	10½	321,000
12th August	1,000,000	1	11½	Rs. 10	1	10½	323,000
19th August	1,000,000	1	11½		1	10¼	307,000
26th August	1,000,000	1	11½		1	10⅜	373,000
2nd Sept.	1,000,000	1	11½		1	10	310,000
7th Sept.	1,000,000	1	11½		1	9¾	314,000
13th Sept.	1,000,000	1	11½		1	10¼	327,000
21st Sept.	1,000,000	1	11½		1	10⅛	273,000
28th Sept.	1,000,000	1	11½		1	10⅛	247,000
	55,382,000						12,561,000

12th February.

(*c*) 6 Exchange Banks got £16·3 millions.

(*d*) Cox & Co. about £2 millions.

(*e*) In the Indians' share of £12·5 millions, is included the share of the Sassoons and Presidency Banks which is about £2 millions.

(*f*) Note the difference in the two rates, which ranged from 6d. to 2d.

The above table gives rise to a multitude of thoughts, albeit disconnected. The Indians' share is only about £13 millions and if we exclude the portion of the Sassoons and the Presidency Banks, our share really comes to £11 millions or $\frac{1}{5}$ of the total Reverse Council sales. It has been said that these sales were in response to trade remittances. If so, are the sons of the soil entitled only to one-fifth? How are the Exchange Banks including Cox & Co., entitled to get as much as £18$\frac{1}{3}$ millions, more than one-third of the amount sold, when they are not actual traders? Since there was considerable difference between the market rate and the Government's arbitrary rate, these Banks must have resold them at a huge profit, or for the 15 crores they paid to the £18 millions, they must have got Rs. 27 crores or cent per cent profit if they had retransferred the whole amount. A veritable gold mine indeed! all gold and no quartz. This is in addition to the gift made to them on some imaginary Council Bills to liquidate an imaginary over-bought position, referred to in the last chapter. It is also worth noting that on 12th February when one pound was sold for Rs. 6. 14 as.—what a windfall—Calcutta alone, that means mostly European remitters, got £3,472,000 or more than $\frac{2}{3}$ of the sum sold on that date. Among other things, this shows how the wind blowed. We shall again ask how are non-Indians entitled to remit £44 millions at a profitable rate and thus inflict huge losses on the Indian Revenues or cause loss to the Indian people. The Government in India seems to exist for the benefit of everybody else but Indians. Even the Americans and Japanese got £10 or £12 millions as much as the Indians got.

The whole transaction creating unhealthy competition and feverish speculation, savoured of Monte Carlo, Mr. Madan then stated. The *Times of India* roundly charged the Government then for encouraging wholesale gambling and speculation and creating conditions as demoralising as the jobbers and speculators do in a share market. Whatever it be, without questioning the *bona-fides* of the members of the Currency Committee or of those who carried out this policy, one thing must be said, and that is, the idea of selling Reverse Councils at the rate of 2sh. 11d. must have originated first in the ingenious brain of some single person, fit to be the President of the gamesters of Monte Carlo or New York.

This naturally leads us to the question why Reverse Councils were not sold at competitive tender. Sir Fazulbhoy Currimbhoy asked Mr. Hailey why the Government should not sell at competitive tender. Immediately, Mr. Hailey got up, disowned or repudiated any such idea and said they would never think of such a step as if it was all wrong. But, all the time, Council Bills alone were on offer at competitive tender. Even the Karachi Chamber of Commerce sardonically pointed out, "the Government of India were selling pounds sterling every week on terms for more favourable to the public than the public themselves asked for." And, let it be remembered that all this gain went into the pockets of those who, by withholding remittances, caused all the currency and exchange troubles after 1917. In the whole of that year, particular stress was laid on this point and in the 1921 Budget speech, Mr. Hailey defiantly said 'they refuse to answer the question as to why they did not adopt competitive tender.' In all that I have written, I am backed up by the forceful remarks of Mr. Eardley Norton in the Legislative Assembly—not to speak of the views of Sir Montagu Webb and Mr. E. L. Price... Mr. Norton said in the course of the first Budget debate in the newly-born Assembly—more is the pity—about the failure to adopt competitive tender as follows :—

"Why not? Did they not know or knowing, will they not answer? I cannot entertain for one moment the suggestion that the Government have not got the answer. The only horrible inference is that they have it and will not reveal it. I think we are entitled to apply to the Hon. the Finance Member from his failure to produce, the legal presumption most hostile to himself. It is quite clear to me, and I hope it will be equally clear to the House that the reason why the Finance Member was unable to answer that particular question with regard to the policy of his Government in the matter of Reverse Councils was because he did not wish to implicate persons who are not here and who do not desire to be here.

And if it be true—I am afraid that it is—if it be true that the real impelling and controlling influences with regard to this matter and other financial matters are to be found in England and not in India, then I think the House would like very much to know who is the Rasputin behind our Financial Czar, to which I would add the supplementary question, where is he living, in Delhi or in London? Is it in India where we can control him or is he at Home outside our jurisdiction?

These financial considerations are brought forward, not as they should be, solely for the benefit of the peoples of India, but under alien guidance for the benefit and prosperity of men who have long exploited India for their own ends and who intend to prolong that process without interruption in the future."

There are some other disconnected thoughts or queries, arising from the list of allottees. Mr. Hailey in reply to a question asked the Members to look to the lists, especially those of Bombay, to see how Indians also benefitted by it. There is a strain of meanness in this reply as it seems he or the 'aliens' grudged even the £11 millions which the Indians got allotted to themselves. In the Alliance Bank affair Sir Malcolm Hailey assured an admiring audience that the whole official world did not withdraw a single pie even though they knew the Bank would fail. Would he then give us the same assurance that officials and officials' wives did not participate in that gamble, did not "beg, borrow or steal" to remit through the Exchange Banks, the utmost they could thus scrape? An answer to this is necessary to show they were disinterested and that all officialdom withstood the temptation and kept away from the market. Or, having tasted the sweets of remittances at high rates, do they desire the same in perpetuity? A statement was issued that large refunds of income-tax had to be made, and that merchants actually received cheques from the Government instead of paying to them. It is to be hoped that in this matter there was greater impartiality than in the allotment of Reverse Councils, as between Indians and Europeans.

Perhaps, if there had not been the temptation of Reverse Councils, the Sassoons would have refrained from converting their privately-owned Mills into one huge limited company. This is not mentioned in a spirit of complaint. Only, the unfortunate result has been that the vast army of poor shareholders have been left chewing the cud since then.

Let me conclude these rather bitter cogitations with one amusing incident. It seems the argus-eyed British Treasury officials levied income tax and super-tax on the profits of 10 to 12sh. derived by the remitters on each 15 rupees or £1 remitted. This is in strange contrast with the method here, where *officials boast of refunds*, where not even 'conscience money' occasionally creeps in, and where to decide and levy income-tax on indigo and tea factories and plantations takes years, if not decades. All roads lead to Rome and every little helps!

CHRONOLOGICAL RETROSPECT ON CURRENCY AND EXCHANGE

The seeming profession has been made that there was no alternative to the policy forced on us suddenly in January 1920. As. Mr. A. G. Gardiner, the well-known Liberal publicist, put it with regard to the Tariff Reform issue in England, "it has been sprung on the country with a secrecy and haste more suggestive of the profession of the burglar than that of the statesman." Hence, it has become necessary to examine the question still further, though it might seem like flogging a dead horse. No doubt, the problem has been discussed thread-bare in the able articles of Mr. B. F. Madan and in the several representations of the Indian Merchants' Chamber. But then, I have been long intrigued and haunted by the thought what made the officials embark on it and to go to the very root of the matter.

Ostentatiously, they have been proclaiming that their sudden and startling action was