based in the best interests of the people and, indeed, our benefactors wanted to do good stealthily. They gave various seasons for their step, not one of which was tenable. Besides, the answer is still awaited as to why Reverse Councils were sold when the balance of trade was in favour of India, or at such monstrously high rates, and why there was a complete ignoring of competitive tender. There was one reason which when it was given, seemed convincing and that was the great inflation and the consequent rise in prices. Mr. Hailey assured us that one of the reasons why the Government embarked on their policy was that they were perturbed at the huge growth in the Currency note circulation and the consequent inflation and high prices and that they meant to contract or deflate—to use this economic jargon—and thus to mitigate prices.

But a laboured delving into currency reports and commercial journals shows that here too, we have been badly let down. Even the above reasoning breaks in our hands at the merest touch and must therefore be considered as one of those which the Government used freely for misleading the people and for clouding the issue. Unfortunately for the Government, the statistics in the present case do not lie and they really show that they had other objects in view and that their policy partakes of the nature of shady transactions.

It is here intended to give some chronological facts in the form of a diary, about the Paper Currency Reserve and inflation, the course of exchange with the hide and seek policy of the remitters, the balance of trade including import of gold and silver and Council Bills, the price of silver and the bogey of inconvertibility, and the rise in prices.

Before examining these aspects, let us put some leading questions which, somehow, escaped notice then, but must themselves have arisen in the official mind only to be thrust back as too impertinently obtruding on their conscience. They are: (1) if there was inflation, why did exchange rise at all? All the world over, it is held that the sign or result of an inflation of currency is the depreciation of exchange. If there was inflation, the exchange rate should have been 1sh. 3d. or 1sh. 2d. Indian exchange like American exchange was soaring high, thus showing there was no inflation. (2) If prices rose very high, exports would fall and exchange would not rise. If Indian prices were high, how is it then that export bills came out in 1919-20, in spite of the constant rises in exchange up to 2sh. 4d.? Is it not then a true measure of the great difference or gap between the world prices and Indian prices? Exchange rose from 1sh. 6d. to 2sh. 4d. in eight months, and that exporters could sell their bills at the latter rate shows that Indian prices were really 50 to 75% lower than world prices or English prices. On these two points, it is England that should have shown concern to support exchange, as her sterling had depreciated in terms of the rupee and as her prices were more than India's. Both inflation and rise in prices, if truly existent, should have kept exchange down, but contrary was the case in India. It clearly shows there were no difficulties for India and there was no cause for alarm. Truly then, it was a simulated one to work out their schemes. England corrected her depreciated exchange with America by heaping gold on her and corrected her exchange with India by starving her of her gold and by pouring unlimited quantities of goods on us.

The third reason was the high price of silver. This was only one of the causes that contributed to the rise in exchange. Even if the price of silver was high, would exchange have risen if there had not been such a huge favourable balance and large outlay in India on behalf of His Majesty's Government or if there had been a severe famine? The rise in exchange was to prevent rupees from being melted down and Council Bills from being sold at a loss. The increase in silver price should have been reckoned as a factor only when there was a demand for Council Bills and rupee coinage. In December 1919 and January 1920, there was no demand for Council Bills and silver as a threatening element lost its importance even then, as exports could not keep pace with any higher rise in exchange. Besides, silver coinage had overtaken the demand.

Again, we were told that their object was to reduce the Home Charges. Why did it not strike them to reduce the Home Charges *per se* instead of manipulating the exchange? Their object was to keep the level of Home Charges high or even increase it in millions of £s. Only they wanted to hide it by saying what less number of Rs. are required to pay it. Instead of claiming they were saving 10 or 20 crores on such remittances by means of exchange, common honesty would have led them to embrace the opportunity then afforded, of reducing the incidence of Home Charges itself from £20 millions to £10 millions or even less. In that case, India need never have troubled herself with rises and falls in exchange in future.

These were all ignored. Instead, the parrot cry was raised as to the danger of inflation, price of silver, inconvertibility, etc. The Government of India went on like a blind machine set on its purpose. They did not even pause to enquire that if exchange wanted support, it should be only after all the restrictions on trade and treasure had been removed. Indeed, when they said exchange was low at 2sh., gold was flowing into India instead of outward and it was at a high premium within India itself. By their action, they have violated even the most elementary principles of scientific economics.

I

PAPER CURRENCY RESERVE AND INFLATION

The *Capital* wrote on February, 1920,

"It is probably more with the view of contracting the paper currency than with any intention of catering for an uncertain demand that the Government of India are dealing so largely in Reverse Councils."

The Government issued a *communique* on September 28, 1920 as follows:—

"The Government of India have been in continuous communication during the past few months with the Secretary of State on the subject of the sale of Reverse Councils. Since the 1st February, the note circulation has been reduced from Rs. 185 crores to Rs. 158 crores on the 15th September and this material contraction of currency has to a large extent been rendered possible by the maintenance of the weekly offer to sell sterling drafts on London."

The Viceroy also said in August 1920, that "their object was to reduce the fiduciary portion of the note issue" and that the reduction was to be effected "by the withdrawal of that portion of our note issue which was based on securities."

What was then the state of the Paper Currency Reserve in 1918-19 while the war ended, or in the beginning of the year 1919-20 when the Currency Committee was appointed and when the question of inflation and prices must have been present in the minds of the Government even in March and April 1919? How did the inflation danger arise during 1919-20 that required to be dealt with immediately in 1920-21 and who was responsible for this?

PAPER CURRENCY RESERVE

IN CRORES OF Rs.

Year.	Note Circulation.	Silver.	Gold.	Indian Securities.	English Securities.
31st March 1913	68·97	15·48	38·52	9·99	4·00
1914	66·11	16·45	31·58	9·99	4·00
1918	99·79	10·79	27·52	9·99	51·47
31st Dec. 1918	147·08	32·13	19·80	12·65	82·49
15th April 1919	154·09	37·95	17·55	16·07	82·49
7th Jan. 1920	186·20	42·57	43·64	17·49	82·49
15th Oct. 1920	158·53	58·34	23·76	68·07	8·34
			(36·50)	(51·00)	(12·50)

N.B.—The figures in brackets are as the Reserve would be approximately if official exchange were 1sh. 4d. or Rs. 15 per £.

The first idea that must strike one is that if there was necessity for contraction of circulation from 186 crores to 158 crores or by 28 crores in 8 months in 1920, why, on earth, was the note circulation increased by 32 crores in the preceding 8 months in 1919? There was no excuse of war then. One doesn't know how to characterise it, that while in 1919, they issued notes at the rate of 1 crore a week, in 1920 'the withdrawal and cancellation of currency notes were going on at the rate of 1½ crores per week.'

The question of inflation and of notes being based on fiduciary reserve or securities must have been present even in April 1919. Besides, that was the time when the Currency Committee was appointed and the Government of India sent out its representatives to plead before the Committee that India was suffering from inflation and high prices. Instead of retiring the notes based on fiduciary reserve in 1919 and thus checking inflation, they went on selling Council Bills and increasing the note circulation from 154 crores to 186 crores in eight months. Who is responsible for this inflation, so-called? After all, the increase in the notes in 1919 was based on an almost equal value of metallic reserve, silver 5 crores and gold 26 crores. With what consistency or honesty can they then hold that the circumstances in 1920 demanded a cancellation of notes to the extent of 28 crores,—which is nothing less than a wanton annihilation of the country's wealth ?

For one thing, the Government has frightened us and themselves by the use. of the words inflation and deflation rather loosely, and some of our own men thought there must be some little truth in it. Our first contention is, there was practically no inflation and if there was, it was nothing compared to what occurred in the world outside. Besides, inflation was imposed on India as a consequence of the war and of India's readiness to accept these minor inconveniences for the sake of assisting Britain. *No one dreamt that this minor inconvenience* would be transfused into an attempt for regular bleeding.

How then did the 66 crores notes of 1914 increase to the 186 crores of 1920 ? The answer is easy ; that was because of the huge balance of trade from 1914 to 1920, the heavy disbursements in India on account of His Majesty's Government, the restriction on the import of gold which would otherwise have taken the place of notes and rupees demand, and, lastly, the mischief of the remitters who, from 1917, hoarded up their remittances and who proved a veritable curse to India more than all the gold hoarders. The following table would show the enormous strain put upon the Indian Currency system :—

Year.	War Transactions Millions of £s.	Balance of Trade Millions of £s.	Council Bills Millions of £s.	Gold Imports crores of Rs	Net absorption of Re-coins. Crores of Rs.
1914-15	8·68	29 10	7·74	7·64	−6·70
1915-16	14·25	43·59	20·35	−1·11	10·40
1916-17	33·19	62·67	32 99	13·23	33·81
1917-18	61·99	61·42	34 88	25·17	27·86
1918-19	82 87	57·24	20 94	−5·56	45·02
1919-20	58·23	118·83	31·22	35·33	20·09
	259·21	373 85	148·12	74·70*	130·48

*It includes about 19 crores of P.C.R. Gold.

It must be inferred, therefore, that the currency position in January 1920 was an index of the true financial strength of the country and of the real accretion of wealth. Not only had the Government to provide the wherewithal to meet the huge favourable balance of trade of £ 374 millions but also to meet £ 259 millions of disbursements in India for the operations in various theatres of war in the Near and Middle East. That it was no inflation has been admitted in the several Currency reports as well as in the lucid Budget speeches of Sir William Meyer. Is there any wonder or any cause for alarm if the rupee circulation increased by 130 crores and notes by about 120 crores in the period from 1914 to 1919?

The Government of India put blinkers to their eyes at the dictates of that infernal body, the India Office, and did not therefore consider the question in all its aspects. We have already raised the issue that if there was inflation, rupee would have depreciated, instead of its appreciating in international exchanges. It was first of all a mistake to suppose that such a large proportion of notes was based on fiduciary reserve as the 82 crores of sterling securities had been declared to be by Sir William Meyer, and were in fact, nothing less than gold. It can be claimed therefore that the metallic reserve to the notecirculation in January 1920, was 90 per cent. and not 45 per cent. as put in the official statement. Even granting the official view, about the fiduciary holding, there was no fear of inconvertibility, apart from the 82 crores of sterling securities convertible into gold or silver. For, I have been able to glean from Currency reports* that the *active* circulation of notes in January 1920 was only 160 crores and of this 160 crores, 20 crores of notes were circulating in Mesopotamia, Egypt and East Africa. (About 4 crores of rupee coins were also in circulation there). Practically, the situation reduced itself to this, that, in January 1920, for 140 crores of notes in circulation within India, there was a solid metallic backing of 86 crores and an equally strong backing of 82 crores of sterling securities or about 120 per cent. Again, the edge of all this note circulation was to a certain extent taken off by "the enormous popularity of the 1 Re. notes" which displaced Rupee coins and which amounted to 13 crores in 1919-20. (It is a great pity, and a great mistake too, that the 1 Re. notes are to be withdrawn from circulation).

Notwithstanding all this, if the official version were to stand, we have only to make comparisons with the metallic reserve in other countries. In January 1919, India's metallic reserve was 34·2%; England's 26·4%; France 20·1%; U.S.A. 80·4%; Japan 82·3%. U.S.A. and Japan show a high percentage because they were not Cinderellas with an imperious step-mother stamping her foot on them and preventing them from acquiring gold. Besides, the most curious feature was that while the Government in India was contracting the note circulation in 1920, at the same time, England was actually increasing her notes in spite of the low metallic reserve, to keep up with the rise in prices and the greater requirements of trade and industry.

The bogey of inconvertibility has no legs to stand on. But it may be properly pointed out, that even with 100 per cent. backing, a large volume of currency would lead to inflation of or rise in prices. Granting this hypothesis, such a state would arise only if there were redundant rupees or notes in circulation. Scenting this plea of inflated currency, the *Capital* wrote at that time,

> "With the present enhanced necessities of life, more ready money is required now than formerly. It is certain that with an ever-increasing population, a higher standard of living, and enhanced prices for everything, there must be far more fluid money to-day than there has ever been before."

The *Capital* might have also added the large number of new industries and trades started after the war depending on cheap capital and unrestricted credit and the vast expansion in inland trade as reasons for the need of more money in circulation. Mr. Reginald McKenna, the ex-Chancellor and the foremost banker in England, has repeatedly emphasised this point that "a considerable revival of British trade was possible by the abandonment of the official policy of deflation" and "that the improvement of trade would necessitate more banking credit and more currency, but this was not monetary inflation."

This problem of deflation versus inflation has been ably summarised in an English financial journal. It writes,

> "If a Government prints and issues out of the void, new currency tokens, and with them, pretendedly, pays capital and labour for work done—particularly so if the work done is a non-productive enterprise—there would be inflation pure and simple."

* * * *

> "But if the amount of money (including National debt) has been increased—*the history of money has been a record of increase*—and that increase is absorbable in capital enterprises which produce more goods and services to counterbalance the increase in the money, then it is surely wrong to confuse that with the situation roughly

sketched in the foregoing paragraph." (Italics mine).

Even Mr. Hailey had the grace to oppose undue deflation after his experiment on India was over. He said in his Budget speech of 1922,

"I have only to mention this amount for the House to judge of the practicability of cancelling 33 crores of notes out of a total circulation of about 170 crores. * * * Every crore of notes cancelled by us means a withdrawal of a crore of notes from the money markets, with a proportionate tightening of money."

Later on, he said in the course of the Budget debate,

"The extent of the harm done by the creation of money by operation of this nature depends of course not only on the quantity of money created but on the velocity of its circulation; it is not to my mind legitimate to take a strictly European analogy here, for the velocity of circulation in India is far less than that which obtains in Europe."

On an earlier occasion, while speaking on the resolution *re* Fall in the Price of Securities, Mr. Hailey unburdened himself as follows:—

"The factor of inflation is not determined merely by the addition of legal value money, or even by the addition of money, using its widest term, available for credit; an important factor is also the velocity with which money moves. * * * I think it would be a natural supposition that in India itself, supposing there were a large addition to available money of all kinds, the effect of this would be less rapid than in England because money has a lower velocity. We have here an imperfectly developed Banking system though we are ourselves attempting something to improve it. We have methods of bazar finance which are sometimes very sticky. We have a trade which is mainly seasonal and, therefore, money remains out of use for considerable periods. We have the hoarding habit and we have finally the fact that in all periods of rising prices, the tendency is to make very heavy investments in real property. One would, therefore, expect the effect of an addition to available money in India to be less rapid than in England. I think nobody would accuse us, in face of the difficulties of the war, of unduly inflating money in India. We have, of course, had heavy increases in the rupee currency; but that in itself is not necessarily inflation."

This garland of wisdom, he wove for our

benefit in February, 1921, in the Council of State, exactly five months after the *Communique* of September 1920, about the contraction of currency. How to reconcile the *Communique*, with all these remarks from his own month passes one's understanding. Hence, considered from all points of view—Mr. Hailey's superb reasonings, though belated, the fact that only 140 crores were in active circulation in India (of which 13 crores were the very popular 1 Re. notes) with a metallic backing of 86 crores and a backing of 82 crores of sterling securities—was there then any warrant or the least justification for their action in February 1920? Besides the worst feature was that in September 1920, while introducing the Paper Currency Bill, Mr. Hailey practically condemned himself. He announced that of the securities portion of the Paper Currency Reserve only 20 crores would be Indian securities, the rest would all be English securities, "because you can immediately convert those into metal." In January 1920, we had 82 crores sterling securities convertible into metal and only 17½ crores Indian securities. The 82 crores were smashed and reduced to 8 crores while the 17½ crores were increased to 68 crores, major portion of these Indian securities being mere I. O. U's of the Government. Now in September 1920, they vainly or hypocritically harked back to the position eight months before. All we can say on this unprecedented *volte face* is, in the language of Shakespeare, O conscience,

"thou art fled to brutish beasts!"

II

PRICE OF SILVER.

It has been the fate of India to be the victim of every English expert or amateur, quack or trickster. The climax of this was reached when a faked-up report of two professors was flung in the face of India to uphold their theory that the price of silver would remain high for many a year. The real bullion experts and dealers were ignored and, instead, two insignificant professors were dug out to prepare a report on the future of silver. These worthies prepared one, which was a mere fake, though based on an elaborate display of statistics. This was followed up by the astounding statement of Mr. Hailey, "we cannot surely gamble on the fall in the price of silver." Gamble: indeed! But pray! who was gambling? Were they not gambling on the continued high price of silver?

Subsequent developments show that the whole scheme was one vast dissemble, a pretence with a view to smash our well-established standard unit of coin and of exchange. The price of silver would not have risen if the Government of India had encouraged the import of gold. Even if they could not help it, the price of silver should have been a factor only for a temporary rising of exchange to prevent the melting of coins or the sale of Council Bills at a loss. The rise in the price of silver in the one year 1919, due to adventitious circumstances, was magnified and enthroned as a permanent feature. Besides, they overestimated the capacity of China to absorb silver and underestimated the capacity of Mexico for increased silver production. They overlooked the fact that China bought silver at such a high price because her favourable balance of trade with U.S.A. was very large and that whatever be the rise in silver, her high exchange with U.S.A. neutralised the effect of such rise in the price of silver. They also ignored that China is a country of recurring famines, pestilences, floods and civil wars and that she might at any time cease to support the silver market.

The Currency Committee—how one's gorge

rises at the mere mention of this body—stated that it would take many years before the silver purchase according to the Pittman Act, to replace the silver sold to India, is completed and that, during that interval, the price would not fall below 1 dollar an oz. Even before the Currency Committee report was adopted by the Government, Mexico, Canada and South America increased their production of silver. The price of silver began falling below 1 dollar in May 1920 until it reached the low figure of 55 cents per oz. in March 1921 or a fall from 60d. to 32d. an oz., which is, more or less, the price since then. The purchase of silver under the Pittman Act in U S.A. did not save the silver market from the slump that overtook it. The silver mine-owners were alarmed at the "speedy abrogation of the Pittman Act" announced by the end of 1921, and instead of the long period prophesied to the complete this purchase, by this Committee, "silver purchases under the Pittman Act ceased at the end of May, 1923."

I have already charged Mr. Hailey with having been a Finance Member who never looked into trade and money reports. If he had done so, he would have quailed even in January, 1920, before he launched on that mad venture of supporting a fictitious 2 sh. gold exchange. For, Messrs. Samuel Montagu & Co., themselves in their weekly report, 22nd January, 1920, stated,.

"It is pointed out that significant indications are being given that the doom of silver as the material for the subsidiary coinage in many countries is imminent; Germany, France, U.S.A., Canada demonetizing or reducing quantity of silver in their coins."

Considerable amount of melted silver coin caused a sharp fall in the price from 89d to 65d, a fall of 24d within a few weeks and Messrs. Samuel Montagu & Co., then, wrote in April 1920,

"The plentiful supplies of silver emanating from various parts of the continent and the many proposals of business in melted coin indicate that very large accumulations will be available. China is not such a keen buyer owing to the falling exchange."

It is clear they purposely ignored the warnings given even by expert bullion merchants.

III

MISCHIEF OF THE REMITTERS.

Indian Finance and Currency seem to be the plaything of every vested interest or every grabber in England or their prototype in India. If only the remitters had responded to the appeal of the Finance Member in 1917 and 1918 and had not withheld their remittances from 1917 up to 1920, there would have been no need for such a large sale of Council Bills, such inflation of currency, and wastage of India's resources on the purchase of silver at a high price and exchange would not have soared to such heights. India, too, would have been spared all the gambling and speculation of 1920. In 1918, the Finance Member in his Budget speech made the following appeal,

> "We may yet have to call to a larger extent for the co-operation of merchants and others who have homeward remittances to make, with the view of applying these more largely than in the past to the financing of these essentially national exports."

These remitters would be more than human if they had responded to that appeal and not hoarded away their war profits waiting for a higher exchange. Hence, throughout the period 1917 to 1920, the cry was that export trade was difficult to finance and that exchange was difficult to procure. The Currency reports for the years 1917 to 1920 gave official expression to the disappointment at, and the hardship caused by, the action of the remitters. The Currency report 1917-18, stated,

> "The amount of these homeward remittances was certainly considerably smaller than in the preceding year and probably also below the level of recent years. * * * Through its (price of silver) effect on the exchange value of the rupee, this appreciation has, on the one hand, led to the withholding of remittances in the expectation of a higher sterling equivalent being obtainable for rupees."

The Currency Officer in his report of 1918-19 substantiated the above by the following remark:

> "It is a reasonable inference that, as was surmised in my report 1917-18, private remittances have not in recent years served to the same extent as under normal conditions to finance the excess of exports over imports."

The same state continued in 1919-20 in a larger measure owing to the sudden and startling rises in exchange which, under official patronage, threatened to have a jump from 1sh. 6d. to 3sh. or even 4sh. In the early months of this year, "exporters were prepared to pay to remitters a premium at times amounting to 15% for cover without which exchange was difficult to procure."

The months of April and May 1919 were the time when the most serious disturbances arose in India after the Great Mutiny. A certain lugubrious and typically hysterical English writer has written describing the then situation as follows:—

> If Mr. L * * T * * had, like myself, seen our women and children collected in forts under military protection and moved by the trainload in the stifling heat across the Punjab to places of safety; if he had seen the destruction and *experienced that feeling of impending disaster* which prevailed prior to the taking of stern measures, I doubt whether he would now state so confidently, etc., etc."

One would naturally think therefore that remitters would have safely sent their money 'Home' then. Such pretendedly anxious moments would not even draw out the hoards of these war profiteers! It is during these so-called disastrous times that the following appeared in the *Capital* :—

"April 16, 1919. There is very little demand for remittances!

(Ditcher). I don't think those who have to remit money to England will weep copiously if the rupee is further appreciated.

April 25, 1919. Sterling transfers for £1 million; tender £ 25,000. * * * There were no tenders for sterling transfers on the Secretary of State for £ 2 millions.

May 16. A further rise in exchange is by no means considered beyond the bounds of probability. But for those who have to remit money home, the rise in exchange will be very welcome.

August 21, 1919. Many people who have money to remit are holding on, in confident expectation of a further rise in exchange (2sh.)

These reveal how cleverly the remitters have been manœuvring the position to their immense advantage. Even during April, when the disturbances were at their height, there were only tenders of £ 20,000 for £1 million and none at all for £2 millions offers of Reverse Councils. A year hence, for the Reverse Councils of £1 million there were tenders of £ 100 millions or even £ 200 millions. For the 7% loan, one of the reasons adduced was that capitalists were shy of investing in India because of the non-co-operation movement. And every time we start a political agitation, we are hypocritically told that that would frighten away a much-needed capital. But not all the serious state of the Punjab would make them remit a penny 'Home.'

It seems that, in 1919, the official world too abandoned their earlier attitude and even entered with zest into this conspiracy of rigging up the exchange to an undreamt of level, much to the benefit of official or non-official remitters and incidentally to the advantage of England. In September, the exchange position became acute, and "export business had been severely handicapped" in spite of the large sale of Council Bills. Still, Mr. Howard in his conference with the Bengal Chamber stated,

> "The question had been raised whether it was expedient to issue another appeal to the merchants, such as had been issued during the war, asking them to assist the exchange position by making remittances. Though such an appeal was fully justified during the period of the war, it was hardly reasonable to repeat it now that the war was over."

In view of the above, the *Communique*, the Government issued justifying the sale of Reverse Councils, seems understandable, though exceedingly surprising. The Government stated in February 28, 1920,

> "The recent sales of Reverse Councils have brought into prominence the large accumulation in India of war savings intended for ultimate remittance to England and held back pending the settlement of the future currency policy to be adopted. This policy having now been declared, it was inevitable that these accumulated sums should seek early remittance, the more so in view of the heavy fall in the dollar sterling exchange which occurred at about the time the policy was announced."

The Government rounded off the above amazing statement by saying that "the demand for remittance created in this and similar ways" must be "in a large measure satisfied." In September 1919, the Government themselves did not want the remitters to ease the exchange position. It seems then as if they were thankful that remitters, by withholding remittances, made it possible for the exchange to rise to 2sh. 4d. and that they, therefore, rewarded them by selling Reverse Councils at higher than market rates. It could not have been held that with about 120 crores of excess exports waiting to be liquidated, there were any difficulties for the "ultimate remittance" of "war savings" in 1919-20. Were 2sh. and 2sh. 4d. or a rise of 50 to 80 per cent. over the pre-war or normal level of 1sh. 4d., insufficient to satisfy their greed? The Government would neither import more gold, increase the acquisition rate for gold, mobilise securities held in England, nor ask remitters to ease the exchange position. Instead of allowing remitters to have recourse to the usual method of meeting export bills or remitting through Exchange Banks, how are the Government justified in using Indian public funds to facilitate such remittances, thus adding still more to the difficulties of the exporters? Let those who prate of the Englishman's high standard of character, integrity of purpose and justice, tell us as to how reconcile these contradictions. After 1921, a rise by half a penny or one penny drew forth remittances immediately. But in 1920, not even 10 pence were enough, thanks to the promised or anticipated help of the Government to manipulate the exchange to dizzy heights.

Thus it is clear that exchange trouble arose and export bills were difficult to dispose of, because the remitters withheld their remittances. This was done partly with the connivance of the Government and the result was, since the exchange position was not eased, exchange rose from 1sh. 6d. to 2sh. 4d. in eight months. A temporary rise was seized upon as an occasion to pour large profits on the remitters who themselves created this confusion. Here, one other fact may be mentioned. On the 1st Armistice Day of November 11, 1919, when His Majesty called for cessation of all work for five minutes at 11 A.M., the whole Empire observed it except Calcutta Mills and Factories. They were so busy making such large sales and accumulating such large profits that they would not respond to the stoppage of work for that brief interval. The Englishman has not yet ceased raising war memorials. But it is to these loyal folk at Calcutta that did not even observe the first Armistice Day, that Reverse Councils were sold at such profitable rates!

Already, reference has been made that Council Bills were sold to the Exchange Banks at favourable rates after 1918, to clear their over-bought position. A close scrutiny would reveal unsuspected depths of shrewdness on the part of Exchange Banks. They, themselves, and their favourite *clientele* had to remit large sums every year to England, these being their profits. Without them they could not have declared their dividends to the shareholders. They were naturally chary of remitting them at the low rate then prevailing as, by waiting for one or two years, they could hope to remit at a higher rate. No wonder then, that they offered to *use their rupee resources to help the Government* on the pretence of financing war exports on condition that rupee funds were released to them in India later on. Hence in the name of easing their over-bought position or liquidating their over-buying guarantee, Government sold them Council Bills at favourable rates in 1918-19 and in 1919-20. Thus the Exchange Banks had thus accumulated all their war profits after 1916 at this end and kept them quite intact ready for remittance at the phenomenally high rates of 1920. These, we need not grudge. But the most exasperating trick was when in the name of fictitious Council Bills, a large sum of 1·69 crores was given them as a gift in 1920-21. How are we to believe that they had an overbought position when they were able to get £ 18 millions of Reverse Councils allotted to them? Besides, the following is at variance with the plea that they had used up their rupee resources for financing exports. One Money Market report stated in 1919 autumn, that "the Banks are keeping considerable balances in the country in the expectation of a further rise in exchange."

IV

RISE IN PRICES

Anything was pressed into service to bolster up the high exchange of the rupee and the rise in prices proved another stalking horse. Their hearts bled for the poor of India and Mr. Hailey, not to be outdone by the Currency Committee, stated, "The interests of the many millions of consumers in India whose margin of subsistence is at the best none too large, must come before those of any other class" and that, therefore, the high prices then prevailing could not be "stereotyped" at the old level of 1sh. 4d. After 1920, the same man had no compunction in levying new taxes and duties and in increasing railway rates and fares, postal duties, salt tax, etc.

What was the state of Indian prices in 1919-20? We shall again go to official reports themselves to confute and confound Haileyian theories. Mr. Innes as the Foodstuffs Commissioner wrote in his report then:—

> "The rise in prices was comparatively small up to 1918. Then came the crowning disaster of the widespread crop failure in 1918-19 and prices in 1919 rose by 73% as compared with the previous year. * * * It is hoped that this report will show that the rise of prices in India in 1919 was due to causes beyond control by any Government and it will place the foodstuff problem in its proper perspective. The crop failure of 1918-19 was one of the worst on record. It was not only severe, but it affected every province a greater or lesser degree and moreover the failure of the rains was aggravated in most provinces by a disastrous epidemic of influenza just when the sowing of the rabi crops should have been proceeding."

This clearly shows that the rise in prices was due to a severe drought and consequent famine and scarcity, and nothing, not even a 3sh. exchange could alleviate the situation. The only course was to continue the embargo on the export of foodstuffs as suggested by the

Foodstuffs Commissioner. Even with all this effect of the failure of the monsoon, " the rise of prices in India " as the Trade report stated, " was less than that in other countries with the exception of New Zealand and Australia." Taking the 1914 level as the unit, the rise of prices in India in 1920 March was only 73 per cent, as compared with U.K. 133 per cent. Belgium 345 per cent. France 239 per cent. Italy 200 per cent and so on. We have not heard of these countries tampering with their standard coin or rigging up the exchange to modify the price level.

Besides, rise in prices is not such a great evil as was pretended by that sinister body, the Currency Committee or by that marionette, Mr. Hailey. As Mr. McKenna said, " we must leave prices to take their own course under the normal pressure of supply and demand. We must seek a general increase of wealth through a more abundant supply (of currency)." He also affirmed that if " we return to the pre-war standard of prices, the national revenue will proportionately fall and the fall in prices would make this (taxation) burden still more heavy." Even Sir Stanley Reed, one of the very few Englishmen who could be expected to take an impartial view in any conflict between Indian and English interests, pleaded hard with the Committee for making no rash experiment with Indian prices, and said that "high prices are not an evil if purchasing power increases *pari passu*," and that "if money becomes scarce and prices don't fall due to various causes, people suffer." But in their obliquity and overweening conceit, the Committee made one trickish statement that since "the agriculturists have a running grain account with the money-lender, high prices would not benefit them." The cunning underlying this remark beats all the cunning of Iago. We of this country learn for the first time from the gentlemen and experts sitting 6,000 miles away, that high prices will not benefit Indian agriculturists. This is the first time we have heard of a running grain account with the money-lender. No wonder, carried away by their philanthropic fervour to save the Indian in spite of himself, they decreed that high prices must be put down by a high exchange.

We shall leave the Committee alone. But as in all respects, the Government action was never consistent. In April 1919 (mark the date) it was announced that a standard cloth was abolished owing to the fall in the price of cloth." That shows that anxiety on one score was at an end. About foodstuffs, so long as scarcity conditions continued, the Government was only to retain the severe embargo or restriction on the export of foodstuffs. But though the 1920 monsoon was a partial failure, the Government allowed 400,000 tons of wheat to be exported, presumably to support the falling exchange in October 1920, after the Reverse Councils were over. But, by that time, they had become callous to all criticism.

The result of all their meddling was prices did not fall in India but deflation proceeded apace. The *Labour Gazette* as if tauntingly at the official world, has been recording ever since that the high water-mark of Indian prices was reached in October 1920. Whereas in England, prices fell more rapidly due to natural causes and deflation simply followed the fall in prices, unlike in India where deflation was thought of as a method to force down prices, though unsuccessfully.

A temporary rise in the price of silver, a rise of prices in India due to famine, and expansion of currency, otherwise called inflation, were all used to support their high exchange policy. But the only outcome of it has been that deflation has been carried too far, exchange has revolted back to the old level and prices in India have not fallen to the same extent as in England. And as Sir Stanley Reed said, money has become scarce, prices have not fallen and people are suffering. A vital blow has been struck at the purchasing power of the Indian in the name of deflation and high exchange.

V

CASE FOR IMPEACHMENT—BY MAN OR BY GOD

It may be said they could not have foreseen all the results that have arisen from that step and that they embarked on it with no dishonest intentions. But, leaving apart all the contradictions and inconsistencies which we have pointed out, there are certain other definite counts on which a direct verdict can be demanded whether they acted *bona fide* or *mala fide.*

There is, first, the rule that Reverse Councils should be invoked when there was an adverse balance of trade and when exchange went against the country. In the whole of 1919-20 every month recorded considerable excess of exports over imports and there was a total excess of 122 crores. Even from December to March when the Government's policy was hatched, each month recorded an excess of 6 to 10 crores. There is, of course, the plea that in spite of a favourable balance of trade, balances of remittances were the other way. These balances of remittances kept on accumulating because they did not function in the only way they ought to, (i.e.) meet the exporters' bills. Without allowing or coaxing these remittances into meeting the huge exporters' bills, the Government, in an insensate manner, competed, so to say, with the exporters themselves. The whole Government position has been exposed and a strong case made out for their impeachment—a ludicrous dream, no doubt—by an official report itself. The Currency Report of 1919-20 states,

> "The Council Bills sold exceeded those sold in the previous year, but against these must be set the heavy sale of sterling drafts on London *which reduced the net assistance thus given to the export trade* to a figure somewhat below that for 1918-19." (Italics mine).

The export trade was kept starved of funds; while, the Government, as if it were some magnetic giant crane, sucked in and simply transferred £55 millions or 82 crores of Rs. from India to London and then sank into a sullen silence after some splutterings.

If more proof were wanted that they themselves did not believe in a 2sh. exchange, it is afforded by the fresh contract then made with the E. I. Ry. Sir David Barbour, experienced man as he is, knew that 2sh. exchange was mere hot air and in the new contract, got a guarantee of compensation for exchange below 1sh. 8d. in the remittance of the surplus profits. He said,

> "The rise in exchange is responsible for an increase of our sterling surplus profits of no less than £ 51,000. So great a rise in exchange cannot be expected to be permanent, and under the new contract there is a fixed rate of exchange (1sh. 8d.) for the remittance of the surplus profits to this country.

It means that the Goverment themselves did not believe in the possibility of a 2sh. rate and gave this concession to the E. I. Ry. The master-sophist who then ruled the roost would have turned round and said, 'they have made a profitable transaction. As they believed in the 2sh. exchange and as they would gain 4d.

on such remittances, (though we are not sure whether if exchange stood at 2sh., the 1sh. 8d. contract would be enforced). Just the same infantile reasoning that we hear now, give 2sh. rate to the officials and the government stands to gain on any rise in exchange above 1sh. 4d.

Here, I am a little bit surprised that this aspect has not attracted the notice of such a vigilant financier as Sir Purushothamdas Thakoredas. The 1sh. 8d. rate with the E.I.Ry. for accounting purposes is only a secondary object. The important point is, the E. I. Ry.'s surplus profits from 1919 have been remitted at 1sh. 8d. at Government expense. The publication of the correspondence on this minor subject would reveal the true mentality that prevailed then. But, what about the publication of the correspondence on the bigger question?

I have given a frightening heading to this section, but what follows would justify it. In Mr. A. G. Gardiner's words the whole affair smacks more of the "profession of the burglar than that of the statesman." Let me here take the liberty of quoting what I wrote in my previous book. It was as follows:—

"What shall we say of the appointment of the Currency Committee with no adequate Indian

representation and of the lightning touch or flash with which that particular recommendation which would sap and drain away India's resources has been given effect to. It is still indeed a wonder and mystery how the Reverse Councils came to be adopted with such extraordinary haste and secrecy."

As an English writer put it in the *Madras Mail* "they were in an inexcusable hurry to put the Committee's proposals into practice." Contrast this with the manner in which the reports of all other Commissions and Committees have been dealt with and it is this aspect which is most intriguing. Take the great Royal Commission on Public Services which was appointed in 1913 and which submitted its report in 1917. Opinion was invited from the public and Local Governments after the publication of the report in 1917. Effect was given to most of the recommendations only in 1919, though certain items were given prior sanction. But the Indianisation problem proceeded at a snail's pace. The Indian Industrial Commission was appointed in 1917 amidst great fanfares, and was welcomed as heralding a new era in the industrial policy of the Government. It was even regarded as conferring a Magna Charta on the orphaned industrial progress of the country. Much was expected of this Commission. But it went on in its weary way, time and despatch not being their objectives. The report took a long time a-coming and it was published in 1919. Official procrastination never went to worse lengths than in the treatment of this report. This Commission gave birth to other Commissions and Committees, while action on its recommendations was being postponed. The Chemical Services Committee, the Stores Purchase Committee, the Indian Fiscal Commission were appointed. As for the report of the Stores Purchase Committee, they considered it for a long time after a good deal of correspondence between India's several masters who all must have their fingers in the pie. The result was, they accepted the minority report of the Committee. Why did they not do the same with regard to the minority report of the Currency Committee?

The Indian Fiscal Commission showed much expedition in its task. But Lord Reading said that "it is with the Government of India that the final responsibility of determining these questions in India must eventually remain" and that a third body called the Tariff Board would be appointed to advise the Government on the fiscal policy to be pursued hereafter. There was the usual delay in this. Of all the Committees on Indian affairs, almost the only body which has proved somewhat of a real blessing is the Tariff Board—next to the Inchcape Committee which it will be sheer ingratitude to forget—though there is justifiable discontent that the Board is too apologetic and that it has not gone far.

As for the Industrial Commission recommendations, they are still hanging fire. Sir Thomas Holland, the then Commerce and Industry Member, who was himself the President of the Commission, when questioned had himself such vague ideas on what to do, that he asked the inquisitive Legislators to refer to the reports of the Directors of Industries. The late Sir Vithaldas Thackersey who was almost the last of the associates of Gokhale to continue his work, asked the Government as to what steps were taken about the report of the Industrial Commission. Mr. Chatterjee—remember it was in 1921, 5 years after the appointment of the Commission and about 3 years after its report was published—replied,

"Some little time must elapse before they can be carried into effect. No definite programme *of work has been framed by the Government* of India who are proceeding as quickly as possible with the most important of the Commission's recommendations and such as are capable of being taken up immediately."

Perhaps, our official geniuses long ago anticipated Einstein. For the Industrial Commission and its auxiliary reports, one year meant a Neptune year and hence our (earth) years were only so many days. As for the Currency report, time stretched itself considerably and one day for the publication of and taking action on the report acquired the length of, or was reckoned as equal to at least, a decade. If all this be exaggeration, let me quote the late Sir Vithaldas Thackersey who, in March 1922, in the Assembly, voiced forth the public dissatisfaction for the dilatoriness on this and on other questions in the following words:—

"I want to know what steps have been taken to bring into effect the recommendations of that (Commission). Government appointed in December 1919, the Stores Purchase Committee. That Committee took seven months to report and made an excellent report by the majority. One year and nine months have passed since this Committee was reported. We know the Government have taken action in appointing an Officer as Chief Stores Purchase Officer in India; but so far as actual steps are taken to encourage industries are concerned, I maintain that nothing has been done. * * * If Government wanted to take immediate action for the encouragement of Indian Industries the report of the Stores Purchase Committee is full of valuable suggestions and they could have taken the necessary action.

Ergo, the Stores Purchase policy requires a resolution to be moved every session and every year before it can be made to bend to the popular will and yield real fruits.

Take again other Committees. The Jails Committee report was submitted to a process of long correspondence with the Provincial Governments and action has not been fully taken on it. Even the Railway Committee report was subjected to great public scrutiny. As for the Deck Passengers Committee, it seems it is still in the correspondence stage even though three years have elapsed since the publication of the report. God only knows how much the poor labourers and repatriates are suffering under the wide awning of the sky. In the

Ellis Island affair, the emigrants were not undergoing even one hundredth of the suffering here; still, Ambassadors, Secretaries of State, Houses of Parliament worked themselves to fever heat to get the conditions mended or improved.

There are other Committees like those on Mercantile Marine and Beggary, whose reports are in such pendant condition. I refer the reader to the Inchcape Committee report where a full list is given, against most of which will be found the remarks 'under consideration' or 'under correspondence with Provincial Governments.' Therein will be found the list of Committees and Deputations who undertook costly tours and even put a girdle round the globe like Puck—Indians also were members thereof—but the result has been incommensurate with the expenditure. I do not want the Government to act on all the recommendations of all the Committees; for, in that case, we will either reach the millennium, the Utopia of More and Wells or descend into the primeval and delirious savage state, making confusion worse confounded. But what is reprehensible is, they have not understood there is a limit to delay as there must be a limit or check to precipitancy.

Unfortunately, precipitancy—that too of a diabolical kind—not delay, was the cast of the die in the affair of the Currency Committee report. They did not publish the report first; they did not make known all the recommendations of the Committee; they did not invite public criticism; nor did they resort to the time-honoured method of consultation and correspondence with Provincial Governments. As I wrote on a previous occasion, "one morning, we woke up to find the report and the Reverse Councils sales together." Even the Lee Commission and Esher Committee reports were given time. This particular cause for grievance has been admitted by a few Englishmen like Sir Stanley Reed, Mr. Brock, (of the defunct *Madras Times*), a very able student of Indian Finance, Sir Valentine Chirol, etc. Sir V. Chirol, himself, could not contain his anger and wrote in 1922 in the following scathing terms:—

> "It was an attempt to take advantage of the artificial rise in the price of silver during the war in order to stabilise the rupee at the exchange rate of 2sh. * * * * Not only did the Indian Exchequer suffer enormous losses in its own exchange operations, but the whole trade of India was paralysed and when Indian merchants, threatened in many cases

with ruin, appealed to Government for compensation or help, and were told that Government disclaimed all responsibility, the shock was scarcely more disastrous to our reputation for business capacity than to our credit for good faith. * * * Trade, no doubt, gradually readjusts itself to conditions, however wantonly dislocated, and bumper harvest such as this year promises, is a wonderful panacea. But the moral harm done has been even more grievous than the material havoc."

We shall make a present of the above to Viscount Peel who considers himself an expert on Indian affairs and who every day threatens us with another long tenure of office as Secretary of State for India and also to the London *Times*. The latter wrote with unctuous pride on the settlement of the American debt,

"Respect for word and bond is the greatest of England's assets. The sanctity of contract has reached a higher development in this country than in any other. It has done more than anything else to build up English industry and English honour abroad."

Every word of this is true; only, when they hear the chink of Indian money, one and all become mere hucksters—with perhaps a few honourable exceptions.

It has somehow escaped the notice of us all that during the whole year 1920, while India was seething with discontent and agitation on the economic ruin inflicted on her, not one question was raised in the Houses of Parliament. A few belated and half-hearted questions were put in 1921, but in 1920 not a whisper was heard in Parliament that a great wrong was then being done to India.

Even the slightest occurrence or the most insignificant matter here immediately finds an echo there and unscrupulous special correspondents are promptly at work. After the Armistice, more than 1,000 locomotives might have been bought in England. Because 4 or 5 locomotives were ordered from Germany, the hypocritical English press worked itself into hysterics, "volley of questions" was rained on the Under-Secretary of State and it was cabled to our benefit that Leeds was in amazement, to give one instance. If some slight scuffle or local rioting occurs in some village, busybodies in the House of Commons are ever on the look-out to exaggerate and magnify it. If some proposal is made to bring the level of the pay of the officers of the Indian Army to that of the British Troops in England, even Lady Astor, that American-born woman, becomes immediately interested in Indian affairs. Lord Reading, once in his Viceregal career, allowed himself the luxury or freedom of independence and made a feeble protest against the Kenya decision. He was at once pulled up by Viscount Peel and Earl Beauchamp as if he did something to endanger the Empire. And particular discredit attaches to Earl Beauchamp as he, by this interference, betrayed Lord Reading, his former colleague in the Liberal Cabinet—and a senior one too. If Mahatma Gandhi is released after an operation, it becomes a matter for a full-dress debate.

But, not all the scandal of the Reverse Councils sales served to rouse one Englishman in England in righteous anger at the whole transaction. That was, perhaps, because the whole of England was too busy garnering the fruits thereof without realising it was all ill-gotten wealth. To this extent, the House of Commons, if it cannot itself be called the House of Iniquity, must be charged with having condoned a most grievous type of iniquity. And it is this House of Commons that pretends to safeguard the interests of the 300 millions of voiceless humanity and proclaims that it will never divest itself of its powers of beneficent trusteeship. A piece of very sanctimonious humbug, indeed!

Various other points arise in our mind which should have weighed with the Currency Committee and Mr. Hailey, but which did not seem to have troubled their conscience even for a second. There is the effect of high exchange on Indian trade and industries; but the Committee dismissed it all in one sentence. While giving evidence before the Committee, Messrs. Preston and Chalmers—two Englishmen quite unlike the breed of Sydenham and George Lloyd—warned the Committee against ignoring the results of high exchange and said,

> "You have to-day in India what we may call the birth of an industrial development such as we have not seen before. If that is to be nurtured a high rate of exchange will not do it; it will kill it. * * * Are you going to help those industries by putting up the rate to 2sh?"

Far less excuse, the Government of India had in completely forgetting this aspect of the question. On the one hand, they appoint an Industrial Commission and affect much solicitude for Indian industries; on the other, it seems they do everything to choke them out of existence. Sir William Meyer was very apologetic even for the rise in exchange by 2d. and he said,

> "I must regret any hardship imposed on our export trade by the increase which it has been necessary to make in the rate for Council drafts. * * * A rise in exchange, under ordinary conditions, tends to prejudice the export trade. * * * The rise in exchange was reluctantly undertaken."

But the hectic rise in exchange in 1919 did not unnerve the Government the least; they seemed to have welcomed it as a piece of particular good fortune. Before 1917 for twenty years, exchange remained at 1sh. 4d.; and during war time, it rose by slow stages, as below :—

		Sh.	d.
3rd January 1917	...	1	4¼
28th August 1917	...	1	5
12th April 1918	...	1	6

The last rate continued up to 13th May 1919. After this date, it rose by leaps and bounds, in 8 months from 1sh. 6d. to 2sh. 4d., and there was a like sudden fall in 1920. The rise and fall which show how the 2sh. ratio was a mere hoax are as follows :—

Rise	Sh. d.	Fall (lowest rate)	Sh. d.
13th May 1919	1 8	May 1920	2 0½
12th Aug. 1919	1 10	Aug. 1920	1 10¼
15th Sep. 1919	2 0	Sep. 1920	1 9⅝
22nd Nov. 1919	2 2	Nov. 1920	1 6⅝
12th Dec. 1919	2 4	Dec. 1920	1 4¾

The Currency Committee was appointed in April 1919; the Government of India had sent out its representations before September. How are we to judge of the mentality of those who wanted to make permanent a rate of exchange which rose for a few months owing to a combination of various unforeseen circumstances? Again, would the balance of trade and *Indian prices bear a rate of 24d., not to* speak of 28d. and 35d. or a rise from 50 to 100 per cent? According to them, the price level which was only 70 per cent. higher than pre-war position, was to be forced down even to less than pre-war level of prices!

Such experiments are reserved only for India. England was anxious about the recovery of sterling dollar *exchange, but not* about the sterling rupee exchange though it was the sterling pound that had depreciated. America did not at all feel perturbed at the rise in her dollar sterling exchange and all she did was to raise the tariffs on imports to protect her industries from the competition of those countries with depreciated exchanges. Whereas, in India, even in normal times, the tariffs are regulated more with an eye to outside interests.

But the greatest cause for complaint is whether India could have afforded to lose those 35 crores and much more besides, with her 1001 needs and requirements clamouring for funds. With more than 90 per cent. of the people remaining illiterate, with insanitation and dire epidemics claiming a heavy toll from the population, with various reconstruction problems such as housing, public health, technical and industrial education and the development of greater resisting or earning capacity of the people being neglected for want of resources, how heartless they seem to have been in having wasted away all those crores of Rs. With those 35 or 100 crores, could they not have banished illiteracy to a large extent, could they not have almost wiped off such scourges as plague, cholera and leprosy, etc., whose victims can now only complain to the High Gods? Even the Government's own report on the Moral and Material Progress of India for the year 1919, has recorded the following :—

Only six individuals in every hundred could achieve the very modest census standard of literacy. It must be plain that until the proportion of literates can be raised, the masses of India will remain poor, helpless and prey to political dangers too serious to be contemplated with equanimity. * * * The seriousness of the present position of Indian education is merely brought home to the observer by an analysis of the proportions of the population undergoing different types of instruction."

Coming to sanitation, this report says,

"The immense population of India and its general poverty make sanitary reform a problem of immense difficulty. Without a widespread movement, * * it will be almost impossible to secure India from disastrous epidemics. * * * Nor is it only in the large centres of population that sanitary conditions are so bad. It must be remembered that less than 10 per cent. of the total population of India live in towns; the remainder live in villages which have been all truly described as collections of insanitary dwellings constructed on dung hills."

In the face of these—their own statements in 1919—how they had the heart to wantonly fritter away India's resources is a mystery.

But the evil has not stopped with that. It seems to be persisting still with its grip over India's financial and economic condition. The Currency Committee might have, in their utter indifference, exclaimed,

> Now let it work—mischief thou art afoot,
> Take thou what course thou wilt!

But, certainly, the Government of India ought to have adopted a more responsible and conscientious attitude after 1920. If they had been really sincere and honest, they would have got alarmed at the Frankenstein they raised and would have modified their programme *after* 1920. Even fully allowing they acted with the best of intentions then, my own chief cause for complaint is, they did not throw overboard their other like ventures and did not manage India's finances with greater care and solicitude the moment they found their plans miscarried. Hence, they will have to be adjudged as having been guilty of piling Ossa upon Pelion or of having put red-hot cinders over a gashing and gaping wound.

* * *

FUTURE POLICY

It has become almost axiomatic that anyone who dabbles in currency and exchange problems in the present chaotic state of the world is likely to get demented or become a candidate for an asylum. I do not claim to know much of this complex subject which does not stand by itself but which impinges on every concern, financial and economic, of mankind. But I am not sorry for incurring even the little risk attendant on a pursuit of this subject since it has enabled me to unearth or make public a remarkable statement of the Bengal Chamber of Commerce, supporting the Indian contention for a low exchange or for a return to the old level of 1sh. 4d. In the course of their memorandum opposing protection to iron and steel, they have stated under the heading "Disturbing Balance of Trade" as follows:—

"If the levy of protective duties on steel is successful and the importation of foreign steel is largely restricted, it is not unreasonable to apprehend a disturbance in the balance of trade. The total value of India's import trade for the year 1921-22 was about Rs. 266 crores, and of this total nearly Rs. 81 crores was represented by iron, steel, machinery, railway plant and hardware. *A reduction of imports means an increase in the balance of trade in India's favour and a consequent rise in the sterling value of the rupee. And if Indian products are to compete in the world's markets in sterling, the Indian agriculturist will receive fewer rupees for his pound's worth of goods.* But the cost of his agricultural implements and of the galvanised sheets that are used throughout agricultural India for building purposes will be simultaneously enhanced. He will be therefore adversely affected in both directions, and further he will suffer from the restricted transport development. Even under present conditions agriculturists as a class are poor. They have very little in the way of margin after paying for their food and clothing, and if they are to be penalised by a protective tariff on steel the resulting distress among them will be great." (Italics mine.)

It is surprising that this timely admission on the part of the most influential body in India has been lost sight of, probably because nobody would have expected such practical wisdom and beneficent intentions to be hidden away in such an un-looked-for place. The above views of the Chamber so far as the italicised portion is concerned—the other portions also are overflowing with the milk of human kindness—must naturally render the task of Indians easier.

It seems to be the peculiar privilege of Englishmen to hold views which are diametrically opposed to each other. Like the official inconsistencies of which numerous examples have already been given, at the time when the Bengal Chamber was supporting the low exchange of 1sh. 4d., its representatives in the conference of the Associated Chambers were opposing any statutory change in the exchange ratio from 2sh. to 1sh. 4d. Leaving this apart, it is clear that the Bengal Chamber has unawares committed itself to a low exchange policy and thus supported the Indians' demands. Sir Basil Blackett will have no further excuse to delay introducing the necessary legislation for a change in the exchange ratio to 1sh. 4d. or even less.

The only question at issue at present is whether exchange shall be fixed at 1sh. 4d. sterling or 1sh. 4d. gold. If at any moment, Sir Blackett cherishes a fond hope that exchange may rise to or may be stabilised at a higher than 1sh. 4d. rate, there are Mr. J. A. Wadia and Sir Montagu Webb asking why exchange should not be fixed at a lower than 1sh. 4d. rate (i.e.) at 1sh. 2d. or even 1sh. The desire of one is countered by the equally sound demand of the other. Between the two, we are having a period of dangerous inaction, instability of exchange, and Government, even within the narrow limits of a 2d. difference, creating conditions of instability and speculation as badly as in 1920.

Only, we must ask Sir Blackett when he counsels this policy of inaction, whether he does so disinterestedly or at the dictates of the city of London and of Lancashire. We are tempted to raise this question in 1923 and 1924 —it is clear they have not learnt the lessons of 1920 and are still unrepentant—by the two following extracts. The Monthly Review of the Barclay's Bank—of which our friend Mr. Goodenough, a Member of the Currency Committee, is the Chairman—wrote in its issue of December 1923, under the section, India, as follows:—

> "The rapid rise in the exchange has increased the cost of Indian products in foreign markets, and is reflected in diminishing exports of certain commodities. Hides and skins, in particular, have been affected by this factor.

Indian prices for hides are higher than those for South American, and the already small demand has been further restricted. On the other hand, with the improved value of the rupee, sales of Manchester goods have increased, and quite considerable orders have been placed for fresh supplies, forward exchange having in some cases been arranged as far ahead as April next. If this tendency continues the value of piece goods imported should shortly again approach the normal, for the figures have already increased considerably since the depression of 1920."

When the above was written, exchange was at 1sh. 5d. Since then, exchange has not gone below 1sh. 5d. and now shows a tendency to reach 1sh. 6d. No wonder, that these rises are welcomed by the English Financial journals and that they oppose all attempts at fixing the ratio at 1sh. 4d. One such journal while endorsing the decision of Sir Basil Blackett that all attempts at stabilisation are premature, has in the same article followed it up with this admission that "the improvement of Indian exchange will stimulate Indian demand and benefit some of our industries." We now see why they are averse to fix the ratio at 1sh. 4d.

gold, much more at 1sh. 4d. sterling. These clearly show that some extraneous influences are still at work, undaunted by the eternal shame and scandal of 1920—perhaps, in money matters, there is no such thing as shame, only grab is the order of the day. They defied all Indian opinion in 1920; but they have not the grace to listen even now to the unanimous demand of Indians that the exchange ratio shall be officially fixed at 1sh. 4d. gold. It looks as if they are determined that if they cannot revive the 2sh. rate, exchange shall be manipulated between 1sh. 5d. to 1sh. 7d. to their benefit.

The proper step would be to fix exchange at 1sh. 4d. sterling, the old level when sterling was in parity with gold, "in which at least nine-tenths of our transactions in foreign currencies are expressed," to use his own words. We know fully well that England is bound to reach the pre-war parity of her exchange in her own interest. And India can certainly moor her exchange at 1sh. 4d. sterling. If that be considered rather low in the present level of prices, why they should have any objection to the 1sh. 4d. gold, is not clear. The 1sh. 4d. gold need not be for immediate efforts at stabilisation. The change may be made in the statute and as I have already mentioned in page 89 *et seqq*, having fixed that rate, the Government need not go to its support one way or other.

Sir Blackett has miscalculated that a return to 1sh. 4d. gold would mean deflation. On the other hand, without any idea at stabilising it at that rate, 1sh. 4d. gold would immediately help in inflating our currency to the extent of half the value of the gold and the sterling securities held in the Paper Currency Reserve. By the fictitious ratio of 2sh. in the statute book, Indian trade and industry has been deprived of a much-needed expansion of currency in two ways. The first is, the 22 millions gold and the 14 millions sterling securities have released notes only to the value of 36 crores at the rate of Rs. 10 per £. If the exchange ratio be statutorily altered to 1sh. 4d. gold, both the reserves would immediately add to our currency about 18 crores more. This would not be inflation as within three months from November 1923 to February 1924, 26 crores currency have been created based on the 14 millions sterling securities and on Bills of Exchange. In three months, there had been an addition of 26 crores, still exchange had not fallen but had always shown a tendency to rise. Here, we shall just consider the state of the

Paper Currency Reserves after 1920, both at the official ratio of 2sh. and at what it would have been if the ratio had been 1sh. 4d.

IN CRORES OF RS.

Year.	Note circulation.	Silver.	Gold.	Indian Securities.	English Securities.	Bills of Exchange.
15th Oct. 1920	158·53	58·34	23·76	68·07	8·34	...
31st Oct. 1923	180·82	98·91	24·31	57·48	...	...
31st Mar. 1924	185·85	80·00	22·31	57·52	13·99	12·00
30th June 1924	172·49	78·64	22·31	57·52	13·99	...
						At 1sh. 4d. ratio.
31st Oct. 1923	192·97	98·91	36·46	57·48	...	...
31st Mar. 1924	192·00	80·00	33·46	57·52	21·00	...
30th June 1924	190·64	78·64	33·46	57·52	21·00	...

Now if the exchange ratio had been changed to 1sh. 4d. at least in September 1923, there would have been no tight money market as the above table would show.

Thus from October 1923 up-to-date, there would have been no need for the issue of 12 crores of notes on Bills of Exchange, and the note circulation would have gone above 190 crores, if the 1sh. 4d. ratio had been in existence since then. The present policy of undervaluing our reserves deliberately or blindly and issuing notes when Bank rate is above 6% proves a veritable handicap to Indian trade and industries and only serves to increase the profits of the Banks, the Imperial Bank and the Exchange Banks particularly, at the expense of the country's best interests. If only the reserves had been valued at 1sh. 4d. ratio and corresponding notes had been issued, the Bank rate would not have risen above 6% or at the utmost, above 7%. The present 9% and 10% rate is a big scandal, and seems as if deliberately designed to crush Indian trade and industries. When an easy method of relieving the monetary stringency is at hand, the idea of simply issuing 12 crores on Bills of Exchange is monstrous and puerile. Not that it should not be thought of at any time. But, that should have been the last resort. If for nothing else, at least to release the 18 crores notes the exchange rate should be statutorily fixed at 1sh. 4d. gold.

Besides, as have often been pointed out in Bombay by the Indian Merchants' Chamber and by the commercial correspondent of the *Times of India*, when exchange rises to 1sh. 4d. gold, (i.e.), about 1sh. 6d. sterling, then automatically gold will come into the Paper Currency Reserve and notes will be issued on it. Thus, both ways, financial stringency could have been avoided. Nobody wants 1sh. 4d. to be stabilised immediately or at any cost. But the benefits of the mere fixing of the ratio at 1sh. 4d. are so great that it is a surprise that Sir B. Blackett is playing with it and raising all imaginary objections against it. He is wrong when he said that to reach 1sh. 4d. gold the 25 or 26 crores of additional currency need not have been created. For as I have already pointed out, the statutory change itself would release notes of about 18 crores.

And what is worse, deflation has been carried too far. From January to October 1920, deflation was to the extent of 44 crores in 8 months. After that date till October 1923 deflation was to the extent of 18 crores, or thus making a total of 62 crores. Add to this, the crores of Rs. that had gone to the Near East and neighbouring countries but had not returned, the crores of Re. coins that were exported in the years 1920 and 1921 especially to China and Japan, the large percentage that would have been hoarded or gone to the melting pot; and a conservative estimate would then place at least another 20 crores as withdrawn from circulation. And since the Government are not issuing any new coinage, the total deflation would be about 80 crores after 1920. Bearing in mind all that Mr. Hailey said about hoarding and slowness of circulation and also that the active circulation of notes is only 80 per cent. of the total, one need not surprised if India has been passing all these years through one of the most severe financial crises in her history, with great depression in trade and industry, with a high Bank rate and with a great stringency in the money market—all due to our paternal Government.

Sir Basil Blackett takes credit that 26 crores of notes have been issued to relieve the situation. But he forgets that it is only a temporary palliative and India wants a permanent remedy in the shape of 1sh. 4d. ratio with its attendant beneficent results and that hereafter there should be *no more* deflation. Deflation in ignorant or unprincipled hands has already done enough havoc. They were alarmed at the increase of notes in 1919 of about 30 crores.

even with a huge balance of trade and with war disbursements and now, 26 crores in three months have not sufficed to relieve the monetary stringency.

So far as his speeches show, Sir Blackett bases his opposition to the return to the old level of 1sh. 4d., again on the old phantoms of world conditions and world prices, of inflation and deflation. The bogey of silver price had been laid by the heels. Now, he is dangling the effect of world prices, cross rate and inflation. As for world prices, India is not suffering from high prices as other countries.* She is herself a great food-stuffs exporting and raw material producing country. It is only countries like England that depend even for bare necessities on foreign countries that have to be careful about price levels. In India, currency and exchange have far less effect on prices than the favourable or unfavourable disposition of the monsoon. Given a bumper harvest, no inflation in currency will have any effect on prices. And if there be a failure of monsoon or if, for example, when the flood situation in Tanjore is mismanaged or dealt with dilatorily as the *Madras Mail* correspondents state, there is local famine, prices throughout the country or Presidency have a sympathetic rise and deflation will be of no avail. A change in the exchange ratio even to 1sh. 6d. sterling will *per se*, have little effect on Indian prices. Any rise in prices can be met by embargo on the export of food-stuffs.

Cross-rate is another hobgoblin with which we, Indian children, are frightened into acquiescence of their policy. Even to-day, Sir Basil Blackett announces as if he made a great discovery that stabilisation of our exchange depends on the cross-rate. A close study of the money-market reveals that both silver price and sterling rupee exchange have broken away from the cross-rate and are revolving in their own orbits and not as satellites tied down to the Saturnian dollar sterling rate as the following would show :—

Date.	Cross-rate.	Exchange (sh. d.)	Price of Silver.
Dec. 1 1920	3·48	1·6$\frac{1}{4}$	44$\frac{3}{8}$d.
July 14 1921	3·62	1·3$\frac{1}{4}$	37$\frac{3}{4}$d.
May 1 1922	4·42	1·3$\frac{1}{8}$	34$\frac{3}{8}$d.
Oct. 1 1923	4·55$\frac{1}{8}$	1·4$\frac{5}{32}$	33$\frac{7}{16}$d.
Mar. 1 1924	4·29	1·4$\frac{11}{16}$	33$\frac{7}{16}$d.
June 19 1924	4·37$\frac{3}{8}$	1·5$\frac{7}{32}$	34d.

One can safely venture the proposition that

Indian exchange can be settled without reference to cross-rate.

The following are the suggestions that might be made here. 1sh. 4d. sterling is the best rate for India. Just as England welcomes every rise in sterling dollar rate, why should not she welcome such rise in sterling rupee exchange (i.e.,) when a sterling pound is worth Rs. 15 or Rs. 16 instead of Rs. 14 or the grotesque Rs. 10 ? It is surprising that England should shy at it even though Mr. Ainscough's ambition is that 99 per cent. of the import and export trade should be with England. They want a monopoly of trade, combined with a most favourable exchange for them. The latter means 1sh. 4d. gold or even a higher rate on the sly. It also means England is not worried or ashamed to have a depreciated exchange with India. We are prepared to accept the lesser of two evils, the 1sh. 4d. gold. Only there should be no attempt at stabilisation, which would be a mere repetition of the 1920 escapade as the ups and downs of cross-rates would affect the Government rate as against the market-rate if exchange were at 1sh. 4d. gold and not at 1sh. 4d. sterling. The gold rate should be only for the releasing of currency on the payment of gold when the market rate reaches that level on its own volition. What will happen to 1sh. 4d. gold when sterling reaches parity with dollar or if, on account of some future war between America and Japan, sterling appreciates and becomes equal to 5 or 6 dollars? Even before and in the first months of the war, dollar had depreciated in terms of sterling and dollar-sterling exchange was between 5 and 6. This aspect has to be considered. Hence, no more India's good money should be thrown away in support of exchange, but 1sh. 4d. gold should be the statutory ratio.

How often the thought surges in our brain, what deep malice and cunning made them increase the Home Charges instead of decreasing them. Sir Blackett announced that Government of India's own Home expenditure would come to £40 millions per annum. Add to it the Provincial Governments'—like the too obliging Bombay Government's—and Local Bodies' remittances as well as the increased drain on account of fresh investments as shown in a previous section, on the whole about £60 millions or 90 crores to 100 crores excluding all private and company remittances constitute the drain. Under careful management all these would have shrivelled up to even less than 30 crores. That was not to be. It is on account of these that fluctuations in exchange are causing considerable anxiety. Otherwise, Government need never undertake the function which Exchange Banks are doing in other countries. But we must make it plain that India does not want the petty gains due to a higher than 1sh. 4d. ratio and that her trade and industries can prosper only on a low exchange. Already, the rise in exchange to 1sh. 5d. and 1sh. 6d. has nullified the effect of the 11% duty on foreign piece-goods; while the cannibalistic excise duty of 3½%—the invention of the devil itself—remains as a stranglehold on Indian Mills.

The result of the 1sh. 4d. ratio on the Paper Currency Reserve is the most important point, but which has been generally ignored. Not only should the £22 million gold be revalued as 33 crores but slow addition should be made to the Paper Currency gold. Not content with wasting £55 million securities in 1920, about £8 millions securities have been withdrawn in the name of deflation. Of the 14 millions sterling securities,—here, let the reader note that these 14 million sterling securities were placed in the reserve in three months only, whereas the 55 million sterling securities which were slow accretions of 4 years from 1915-16 to 1918-19 and which were the real index of wealth, were wiped off as being mere inflation—this £8 millions along with the £2 millions of last year's sale of gold—an almost silly transaction—should be brought back in the form of gold and placed in the Paper Currency Reserve. Both together would make up a reserve of 50 crores of gold.

Last October, the rupees in reserve were about 100 crores. Now it has come down to 80 crores, partly because of the demand for currency and partly on account of the withdrawal of the 1 Re. notes.

I beg to differ from that distinguished financier and statesman, Sir Purushothamdas Thakoredas with regard to the abolition of the 1 Re. notes. The 1 Re. notes were very popular and served a very good purpose. He has opposed the 1 Re. notes on the score of expense. But the expense is inconsiderable compared to the benefits therefrom. There is one good point in the Currency Act which Mr. H. S. Jevons in his book has brought out and amplified, that is, that the metallic reserve shall not be less than 50 per cent. of the total note circulation. The result is, as Mr. Jevons points out, that every crore added to the metallic reserve would release not only one crore notes to be put into circulation, but will also enable another crore of notes to be issued based on securities, Indian or English. The more the metallic reserve is, whether of gold or rupees, the greater will be the expansion of currency as the notes can be double the metallic reserve. I request Sir P. Thakoredas to withdraw his opposition and himself suggest the re-introduction of the 1 Re. notes. Even the London *Times* has in an article on the "Growth of Indian Notes" opposed the withdrawal of the 1 Re. notes and has stated,

> "In any event the saving would not be considerable and it is a mistake to regard the question as one of retrenchment. The primary consideration is that of the public convenience and the value of familiarising the Indian masses with the use of paper for monetary exchange."

After all, the loss arising from the 1 Re. notes is a flea-bite compared to the crores we have already lost, to the crores that are drained away out of the country and above all to the great tax which a high Bank rate imposes on trade and industry. The 8 per cent. and 9 per cent. rates are causing greater loss to the country and if a large circulation of 1 Re. notes leads to a healthy expansion of currency and low. Bank rate, it is worth incurring the expenses consequent on its re-introduction. Otherwise, we would be like the man in 'Cranford' who though he lost his all in a Bank failure, scrupulously economises in the use of the paper in his Pass Books and Cheque Books.

It is surprising how expeditiously this suggestion of the withdrawal of 1 Re. notes has been accepted without bestowing a minute's thought on the currency needs, though all the time the Finance Member talks of inflation and deflation. Or, have they withdrawn the 1 Re. notes in pursuance of the policy of deflation; and of creating stringent money market and of rigging up the exchange to a higher level? The same hurry is not shown in the fixing of the 1sh. 4d. ratio, but the sale of £2 millions gold is decided on in the twinkling of an eye.

Besides, we do not know what the future has in store, what world crisis will develop, or what effect they will have on the silver and gold prices. The more rupees are held in the form of metallic reserve, the greater will be the financial strength of India. Hence the Government can try to increase its holding of silver coins to 100 crores by putting into circulation at least 10 to 20 crores of 1 Re. notes. Whatever it be, to prevent future gamble or loss in silver transactions, let the 1 Re. notes be re-introduced and any future purchase of silver may be obviated. Indeed, to prevent the counterfeiting of these notes in India, there is no harm if our notes are printed in England though, of course, not on the present usurious terms of the Bank of England.

As for gold, there should be a minimum of 50 crores of gold in the Currency Reserve and any addition to it must be welcomed if trade demands currency on a deposit of gold. In 1913 for a note circulation of 69 crores, the gold in the reserve was 38½ crores; in 1914, for 61 crores notes, gold was about 31½ crores or about 50 per cent. Now for a note circulation of 180 crores, the Government could not endure the sight of £24 millions gold but would pinch away even £2 millions out of it. On the other hand, to attain the proportion of 1913 and 1914, we should have a gold reserve of about 80 to 100 crores or about £60 millions instead of the present 33 crores—yclept 22 crores as a monument of colossal stupidity.

The Bank of England or the hidden hand behind India's finances need not still hamper the flow of gold to India, at least to the currency chest. Even from an Imperial point of view, a flow of gold to India will be of immense benefit. First, as Mr. Keynes himself seems to hold, world prices would come down if gold is allowed to flow towards the East, instead of accumulating in America. The second advantage is, instead of gold being in a foreign country like America, any increase in the gold holding of any part of the Empire would be available to England in times of crisis, just as 20 crores of our reserve gold was used for war purposes only after 1914.

The third benefit would be, if at any time of an adverse balance of trade due to famine or of any financial crisis, Government is not able to remit Home Charges, they can then rely on the Gold Standard Reserve fund, transferring a moiety of the Paper Currency gold to the Gold Standard Reserve in India and thus bring about a temporary deflation. Such a transfer would be feasible only when the Paper Currency gold reaches a decently high figure (i.e.), not less than £60 millions—which would be about $\frac{1}{3}$ of England's reserve and $\frac{1}{16}$ of America's, if the latter's does not meanwhile increase. The present idea of transferring the 33 crores of Paper Currency gold to Gold Standard Reserve is simply preposterous. It will only be part of the Machiavellian policy of pinching whatever gold India has, by fair means or foul. If the Government were far sighted, it would not let slip this favourable opportunity of increasing its gold holding in the Currency Reserve.

I use such strong language only with regard to the misuse of the Paper Currency gold. But that I am not unreasonable will be evident from my views on the private acquisition of gold. Indeed, I would even suggest the levying of an import duty on imports of gold for private use and thus facilitate their being diverted to the currency chest. This must be augmented even with a restriction on private imports. Besides, at present no fear need exist that the free import of gold into India will affect the Bank of England's policy as in 1920.

The currency position should now be about 100 crores silver, 50 crores gold and 50 crores securities, and a note circulation of 200 crores. If additional gold and silver flows into the reserve it would not be mere inflation but a healthy expansion of currency and increase in the monetary resources of the country At no time should the Paper Currency gold be transferred to the Gold Standard Reserve as contemplated unless, as before stated, the gold in the reserve increases to £ 60 millions.

200 crores or more of notes in circulation will not be too much for a population of 320 millions with very little Banking habits. This aspect has been already dealt with under 'Paper Currency Reserve and Inflation.' It is enough to point out that for a population of 40 millions and with a high developed Banking system and in spite of an enormous use of cheques, the currency notes in circulation in England is £ 450 millions or about 650 crores of Rs. Likewise, for a population of 100 millions, America has a note circulation of £1,000 millions, or 1,500 crores of Rs. In these two countries, deflation is once for all discounted. It is here that we must reject the suggestion, though well-meant, of Sir James Wilson that there should be deflation to stabilise exchange at 1sh. 4d. gold. It is to be hoped the Government will not surreptitiously adopt any policy of deflation. Deflation is not what we want. That India is suffering from the results of inflation will be established only when the

rupee shows a permanent tendency to depreciate in terms of sterling pound or when the exchange rate is below 1sh. 4d. or even 1sh. 3d. sterling *for any considerable length of time.*

One great experience we have gained by the events of the last few years, is that Indian exchange need not be supported one way or other. Apart from the wild fluctuations of 1920, later on exchange was left to fluctuate between 1sh. 2⅜d. to 1sh. 6d. Leave exchange to itself is a maxim which the Government was vainly appealed to, to adopt in 1920; but which they themselves are preaching since then. In their crookedness, they take it as an argument for not altering the rate in the statute. But as pointed out before, a Paper Currency (Amendment) Act must be passed changing the ratio to 1sh. 4d. but without any obligation to maintain that rate officially under all circumstances. The Gold Exchange Standard has lost all its meaning, its terrors and implications, and Reverse Councils which did not function even when exchange fell to 1sh. 2d., we may take it, as such, is buried ten fathoms deep. It is an ugly expression which calls forth bitter memories and let there be no more resurrection of it. Exchange might fall owing to famine, adverse balance of trade or other causes. Without the Government rushing to its support, they can benefit themselves and the country by carefully husbanding and utilising the Gold Standard and Paper Currency Reserve funds and Treasury Balances in London. Further sterling loans for mere Home Charges are unthinkable. That is why, repeated stress is made on strengthening the reserves in all possible ways when conditions are favourable. Gold Exchange Standard, hereafter, must be a misnomer as it need not mean any support to exchange and Reverse Councils as a financial operation may be scrapped, though under exceptional circumstances and with the consent of the Legislature, it may be revived—only if exchange falls below 1sh. 4d. sterling or, I would even hold, only below 1sh. 3d.

Why then, is there such a great reluctance to fix the exchange at 1sh. 4d. gold, though it might remain as fictitious as 2sh.? Is it because by keeping up the latter, they still want to help or subsidise foreign imports by having a high exchange and they still want to starve Indian trade and industries by means of a tight money market? The Government must be ashamed that 8 and 9 per cent. Bank rate has become a common feature or a recurring evil. Do they still want to hold India at the mercy of English capitalists by refusing a timely expansion of currency? As for the adverse effect of high exchange, it is notorious that most of the benefit is reaped—leaving alone England—by such countries as Belgium, Germany and Czecho-Slovakia with their vastly depreciated currencies. Should India be exploited even by foreigners—who are not of the Empire? Should not Indian industries be protected at least from these countries of depreciated exchanges? The present rise in exchange might benefit the remitters and every company or Bank with sterling capital announces to the great joy of its shareholders that a high exchange has increased their profits. The Services also might rejoice at this high exchange. But how India is to maintain her excess exports over imports to meet the 150 crores drain or invisible imports, under such high exchange conditions, is clean forgotten.

I have not entered into the realms of high-brow finance and currency whether gold standard should not be established and why the gold exchange standard should not be done away with. I have avoided any reference to it though I might remark that any coin above 1 Re. for ordinary circulation will be too high for the masses of India. But all the objections that Sir Basil Blackett raises against fixing the ratio at 1sh. 4d. sterling or gold, will only make the position of those who demand the gold standard, the stronger. They may say, be done with the exchange standard, with its rise and fall, with its instability, with the inflation and deflation and with the manipulation of the exchange market consequent on this variable factor. All the pleas he has advanced will only strengthen the hands of those who want a gold standard. Whatever it be, it is to be hoped that no malign influences are still at work as in 1919-20 and no considerations of benefit to English industries and English capital have moulded their policies and that the India Office and the vested interests do not still cast their blighting shadows on Indian affairs.

CAPITAL AND FINANCE—BEFORE AND AFTER 1920

I

If our hand is withdrawn from the Indian administration, rot will set in.—Lord Curzon

But that the rot has already set in even under the rule of the supermen of the over-belauded I. C. S. will be plain to all who makes a careful study of the financial and economic condition of India after 1920. The following will show up what malignant spirit has been at work during the last few years :—

October 11, 1919. Bombay Port Trust Loan 6% debenture loan of 28½ lakhs. tenders 101.4. 11%. * * and the success of the recent Bombay Port Trust Loan even in a market agitated by huge company flotations.

November 1919. Very few of the industrial companies which have been floated in India in the past four or five months have had any difficulty in getting all the capital they asked for.

Subsequent to the Currency and Exchange muddle of 1920, a different tale is told :—

Sep. 21, 1922. Finance Special Committee, Calcutta Corporation, resolved to reject the tenders received for the debenture rupee loan of Rs. 51 lakhs at 7% for 30 years and to recommend a sterling loan for £500,000 at 6%.

Nov. 1920. Currimbhoy Woollen and Silk mills given up owing to tight money.

1922. Companies gone to voluntary or compulsory liquidation.

Let me give another set of contrast, this time from official reports themselves. The Currency report 1917-18 had the following :—

"Yet, notwithstanding these large borrowings by the state, and despite an active internal demand for money, there was at no time any recurrence of that acute stringency which has been an almost regular feature of Indian money conditions at certain periods of the year. Bank rates never exceeded 6%. * * The policy of the Government has throughout been to protect the market against any stringency * * ."

The Currency report of 1918-19 also stated,

"Nevertheless there was again as in 1917-18 a marked steadiness in the Bank rate * * (There was) an absence of stringency in the money market * * (and) a stabilisation of money-rates."

The same state continued in 1919-20 and the Currency report stated,

"It is noteworthy as evidence of the comparative lack of stringency in the Indian markets as compared with foreign markets that for a time, the rates of the Banks of Bengal and Bombay were lower than the rate of the Bank of England which after standing at 5% for about 2½ years was raised to 6% in November.

As the rake's progress began only then, for the earlier part of 1920-21 the Currency report recorded,

"It is interesting to observe that during this period, the Indian Bank rates were appreciably lower than the Bank of England rate, which practically throughout the year remained at 7 per cent."

But the effects of the Government policy were soon beginning to be felt and "in November 1920, the increasing monetary stringency in India became more pronounced." And the Currency report for 1921-22 bears witness to the full effect of the blast that blew over India in 1920-21. This report says,

"The Bank of England rate which for a year