INDIA'S EXCHANGE PROBLEM.

BY

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NOTE.

In the last session of the Assembly in Delhi in January-March 1925, the question of Exchange was on the tapis in various forms, and public interest had been keenly aroused. It was suggested to me by the Editor of the Bombay Chronicle that a few articles on the question of Exchange and Currency might be of great help to all interested in the question in enabling them to arrive at a sound judgment on the issues involved. I, therefore undertook to do it, and my idea then was merely to revise and bring up to-date a paper I had read on this question at the Indian Economic Conference at Madras in 1921, but, after I had begun, I found that a mere revision of that paper would not suffice, because it had been constantly argued by Government that, whatever the mistakes of 1920, they had not meddled with or manipulated Exchange since that year, and that the rise in Exchange that we see now was the natural effect of economic causes acting on our balance of trade. This argument seemed to have great weight with many laymen, who could not see that anything *was* actually being done. It is on this account that I have thought it necessary to take the reader step by step through the various changes in the figures of the Currency Reserves, and to make it clear that there has been not only manipulation, but persistent manipulation, which *must* inevitably lead to higher Exchange as it has done.

It has not been possible in the course of these articles to examine in as full detail as is necessary the many fallacious arguments that are constantly put forward about mitigation of prices, about seasonal stringency, about saving money to the tax-payer etc., etc., as it would only have confused the ordinary reader, but this I hope to do shortly.

In the meantime, these articles have been revised and reprinted in book form at the request of many friends who wished to more closely study the question at leisure. If this little work helps in any little way to enable the Indian public to come to a correct understanding and appreciation of this most momentous economic problem of India, I shall feel myself amply rewarded.

B. F. MADON

Bombay, 30th April 1925.

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OUR EXCHANGE PROBLEM.

CHAPTER I.

The subject of reversion from the 2sh. ratio to the present ratio of 1sh. 4d. to the Rupee is once more very much to the fore since the two Bills put forward by Sir Purshotamdas Thakoredas in September 1924 and again in the present sessions of the Assembly. It will, therefore, be opportune to put before the public the whys and wherefores of this problem, so that they may clearly see what it is that we are fighting for.

Apologists of the Government policy have tried to lead the general public astray by purposely befogging the various issues. Where we ask for a reversion to the pre-war ratio, they pretend that we ask for stabilization, and then go off to explain that so long as exchange was kept stable at some figure, it did not matter what that figure was—it did not matter whether it was 16d. or 18d. or 28d. Where we complain of the losses on our exports they befog the issue by talking of the Exporter and then go off at a tangent and talk of the profiteering to which all merchants are so prone, and ask the public to agree that they should not give any weight to such interested clamour.

It may, therefore, be useful to explain the elements of this problem once more, and to make it clear both to our Legislators in Delhi and to the general public why there cannot be any other ratio than the one deliberately adopted thirty years ago and why the adoption of any other ratio would be a fraud.

WHAT IS OUR CURRENCY PROBLEM?

It is said to be that of our rate of exchange. This is not correct to-day. Thirty years ago it was correct. Our rupee then was a piece of silver of a given weight and fineness and all values were measured then in silver. The problem then was what the rate of exchange of the rupee should be as compared to foreign currencies and it then depended on the price of silver. As this did not suit the Government owing to its budgets being constantly upset by the wide fluctuations of silver, and that mostly downwards, we had the Herschell Committee, and we deliberately discarded the silver standard, closed the mints to free coinage of silver, and adopted the gold standard in a form modified to suit the circumstances. We had no stock of gold on which we could base a gold currency, and so the device was adopted of making the existing coin—the rupee—serve as a gold certificate. The rupee was made a sort of ticket which entitled the holder to call for 16 d. gold but only for international payments, not for internal payments. The rupee thus became India's shilling, the standard being gold and so it was no longer a question of rate of Exchange between Silver and Gold.

To provide the gold that these international payments would call for, the gold that would otherwise have come to India in payment of her produce was intercepted by the method of Council Bill sales, and kept in London, on the plea that any demands on India for gold would be only from outside, and that London was the most central market to keep them in, and that this saved India a considerable sum that would otherwise be thrown away on charges for moving gold to and fro.

Although this looked plausible enough, many public men in India continued to protest very strongly against an artificial system and insisted that India should have a true gold standard with a gold currency like other gold standard countries. But the demand was overruled by the Secretary of State at the instance of London banking interests who feared that India, if it had a gold currency, might absorb very large quantities of gold and thereby endanger the very foundations of the gold standard in other gold standard countries.

So insistent was the cry for a true gold standard with a gold currency in actual circulation, and the diversion of India's gold to England and the whole artificial system to which it was due were looked upon with so much suspicion by our public men that the

Chamberlain Commission of 1913 of which Sir Basil Blackett himself was the Secretary had to go out of its way to defend the system against the charges made against it. They say in para 66 of their Report :

"There remains the argument that without gold in active "circulation, India's currency system must remain a managed "system, it being implied that a managed system is a bad "system. The ideal with which this managed system is "contrasted seems to be the system of the United Kingdom "where fresh supplies of the only unlimited legal tender coins, "the sovereign or the half sovereign, can be obtained at will "by anyone who takes gold to the mint for coinage."

"In our opinion this contrast is of no value. There does "not appear to us to be any essential difference between the "power to import sovereigns at will and the power to have "gold coined into sovereigns in India. The only point of the "criticism that India's currency system is managed in a sense "that is not true of the currency of the United Kingdom lies "in the fact that the rupee is a token passing at a value above "its intrinsic value, and at the same time is unlimited legal "tender. It is true that it is not practicable even to consider "the limitation of the amount for which the rupee is legal ten-"der. In this sense, therefore, the system must remain a "managed one. But we demur altogether to the idea that "because it is to this extent a managed system it must be a "bad system. It is not in fact possible for the Government of "India to manipulate the currency for their own ends, "and they cannot add to the active circulation of the "currency except in response to public demands."

It will be noted that they make two important statements, one—

that the rupee is a token coin

and the other—

that the system adopted is such that it is impossible for Government to manipulate the currency for their own ends.

The Government, by their present action, have shown that it *is* possible to manipulate currency for their own ends, and they have done it, and have added crores of rupees annually to their resources. About the honesty or the morality of this procedure I shall speak later on.

We shall first consider what a token coin is.

A TOKEN COIN.

A token coin is a coin which does not depend on its own intrinsic value for the value at which it is accepted in circulation. It is fixed by law as a certain fraction of the standard coin of the country, and circulates on the strength of the value so given to it by law.

We see that the Chamberlain Commission says the rupee is a token although unlimited legal tender. Then, what was our standard coin? The above quotation will make it clear that it was "the sovereign". The man in the street is unable to understand this. He finds that all dealings in India are and have been in rupees and so he thinks that our standard coin is the rupee. This misapprehension on his part is due to the deceptions of the Gold Exchange Standard System. I will therefore explain what a standard coin is. First let us see what is meant by a standard.

MEANING OF A STANDARD.

A standard is the thing by which you measure other things. We have thus standards of weight and of length. The metal by which we measure values is the standard of value. Countries that adopt gold for this purpose are called Gold Standard Countries. In such countries the value of everything is measured by comparing it to a given quantity of gold. When a man buys a thing he agrees to pay so much gold for it. The seller keeps the gold until he himself wants something in exchange when he gives the gold and takes in return such commodity as he may desire to have.

In very old times the gold had to be cut and weighed from bars and assayed to verify the touch. As people became more civilised they invented what we know as coins. These were pieces of the standard metal of a uniform size, of a definite weight and a definite fineness laid down by law. A man who had to pay a given amount of gold did it by paying out as many coins as gave this total, and thus all the bother of cutting and weighing and assay was done away with, and business made much simpler. In some less advanced countries the old system is still in vogue as in China. However, it will be clear from what is said above that a standard coin can only be a piece of the standard metal (the metal that a country has adopted as its standard of value). As India has adopted the Gold Standard since 1894, our standard coin can only be a coin of this metal, *i. e.*, of gold. The rupee is not a gold coin and it will now be understood why the Chamberlain Commission says it is a token.

Once the coin was defined and laid down by law, contracts began to be made in terms of the coin instead of in terms of so many grains or ounces of gold or silver. The coin thus became a standard measure. (a measure of value) and to tamper with such a coin was deemed highly immoral and fraudulent, because it compelled one party to a contract to receive less than was rightly his due.

TAMPERING WITH STANDARD MEASURES A FRAUD.

The yard or the bushel, the Gaj or the Pailee (mapli), are standard measures. Tampering with the yard or the bushel is pretty frequent among dishonest retail dealers. It is always considered a fraud, and in every country there are very stringent laws against such defrauding of the public. Tampering with the standard measure of value *viz.*, the standard coin of a country is not so common, but it has been practised in old times. It was done by cutting off a portion of a coin and by sweating, *i. e.*, treating it with acids to take off a very thin layer of metal, but principally it was practised by hard-up Governments, who turned out more coins from a given quantity of metal than was laid down by law.

Take the case of the sovereign. It is 113 grains of fine gold, Therefore the mint can turn out only 100 sovereigns from 11,300 grains. If they turned out 113 sovereigns of 100 grains each, and passed them into circulation, the result would be, that a man who held a promissory note of £100, and who therefore was entitled to 11,300 grains of gold, would get only 10,000 grains in this new coin and would be thus defrauded of 1,300 grains.

This debasing of the standard coin is therefore as much a fraud as a tampering with the yard or the bushel, because, just as in the latter cases the receiver gets less cloth or less grain and is defrauded of his due, so, in the former, he gets less gold than was his due and is equally defrauded.

DEFRAUDING THROUGH TOKEN COINS.

Now take the case of a token. The English shilling is a token coin. Any debasement of this shilling by making it smaller or by putting less silver in it would not be of much use. 20 of them would still represent the £. Any one to whom 60 shilling was due would get £ 3 whether the shilling was made of more or of less silver. The only way that the public can be defrauded through the token is by a change in its value in circulation. Our Rupee is a token as shown above, and therefore *any change in its value in circulation i. e.*, any change in the quantity of gold that it stands for, is a currency fraud.

Many people here make another query. They say, "Yes it is possibly a fraud if the value of the rupee is lowered, but to-day the Government is not lowering but raising it. How can that be a fraud ?"

My reply would be this. Let us remember that the rupee is a standard measure like other measures, *e. g.*, the yard or the pailee (mapli). Let us see how a cloth merchant can defraud with the yard or a grain merchant with the mapli.

A cloth merchant, if he wants to defraud his *buyer* would naturally make his yard *shorter*, so that the buyer got less cloth than was due to him. However, suppose the cloth was hand-woven sarees made on hand-looms to the order of this cloth merchant and his contract with the weavers was to pay them so much per every yard of stuff delivered, Suppose he wanted to defraud these weavers who would be his *sellers.* How would he do it? Naturally by making the yard used *longer*, so that he would have to pay less to the weaver for the same length of cloth.

Take the case of the grain merchant. If he is selling grain to the mill-hand he would like to make his mapli *smaller*, so as to get an illegitimate profit by giving short measure to the *buyer.* If on the other hand the same grain merchant has contracted with a cultivator to buy the grain at harvest time and wants to defraud this cultivator, he will make the "mapli" *bigger* so as to get more grain for the same money from his seller. It will therefore be now clear that fraud can be perpetrated not only by making a standard measure smaller but also by making it bigger *according to the use to which it has to be put.*

THE 2sh. RATE A FRAUD ON ALL DEBTORS.

The same is the case with the measure of value *viz.*, the coin. If the unit is made smaller, it is the man who has to *receive* payment that is defrauded of his due. If the unit is made *larger* it is the man who has to *make* payment that is defrauded. It will now be seen that the change of the law to 2sh. was really a fraud on all who have to make payments. All those who had to make payments would have had to find 11·30 grains of gold or its equivalent in goods instead of 7·53 grains as they would have had to do under the previous Legislation. The whole debtor class of the country was therefore victimised to the extent of 50% in the payment it had to *make.* The most important section of this debtor class is our agricultural population who have to *make* payments both to Government and to the Sowcar and therefore the change heavily victimised them.

The Government will contend that they have not changed the unit. The rupee it was and rupee it remains but this is a great deception. As well might the fraudulent grain dealer spoken of above say that the Pailee it was and the Pailee it remains. It is not the *name* of the measure but the amount of its cubic contents that matters. Similarly it is not the name "rupee" but the amount of gold it represents that really matters. The rupee is a token—a ticket—representing a given amount of gold, and the Government is by law making it now represent a much greater amount of gold than it did before, without providing that all previous contracts shall be correspondingly modified.

To take an analogous instance, we have in India units of weight called "maunds". The Bombay maund is only 28 lbs. while the Bengal maund is 82 lbs. Making a law that the rupee shall hereafter mean 11.30 grains instead of 7.53 is similar to passing a law that the maund wherever it may appear in a contract shall always be construed as 82 lbs. even though the intention of the original contract was 28 lbs. Our rulers would think twice before passing such an absurd law. But the change in the value of the rupee is identical in nature and is something equally wrong and equally absurd. No Government has any right to vary contracts in this way to the disadvantage of one of the parties to it, when such contracts are not in any way unlawful, or fraudulent.

The issue becomes still more serious, the change becomes still more reprehensible when the Government itself was one of the parties to such contracts and itself stood to profit by the change to the tune of 12½ crores a year.

ROBBING PETER TO PAY PAUL.

One argument frequently advanced in defence of the change is that although the producer might suffer the consumer benefits. This is a most strange doctrine. Robbing Peter to pay Paul might have been commendable in Robin Hood, but cannot be commended by any honest man. And what poor Peters it is that this change will rob of their dues. It is the Indian producers, the Indian cultivators, who are among the poorest men in the world, that are being robbed in this way.

And who are these Pauls? Who are these consumers that are going to be benefited? They are the people who consume our imports and who would have benefited by getting them 33 per cent. cheaper. If the tables of imports are analysed, it will be found that nine-tenths of them really go to the moneyed classes or to trade and industry. Why should these classes benefit at the expense of the very poorest of the population?

Then again, the Government would have benefited by the 2sh. rate only to the extent of 12½ crores, but the producer would be out of pocket not only to the extent of these 12½ crores but to the extent of nearly 120 crores. On the basis of the trade figures for 1923-24 the total exports are 360 crores. At 15 to the sovereign they represent a total gold value of £240 million. In other words it means that India would have realised £240 million for the total of its exports of Rs. 360 crores. If the Exchange is established @ 2sh. these same exports although they still fetch the same £240 million would give only 240 crores to the producer of this country, *i. e.*, his loss by this change of the standard unit would be 120 crores.

These 120 crores would have gone into the pockets of people who have to remit money out of India—the importers, the Government (for Home Charges), railways and foreign companies working in India (for remittance of their profits Home), the people who import gold and silver for the arts (mainly middle and upper classes), the Civil Service and other services whose members have to send money Home periodically for the upkeep and education of their families and for life insurance premiums, or the non-Indians in private employ who have to make similar remittances, etc., etc., instead of into the pockets of the producers to whom it rightly belonged.

Against this charge of loss to the producer the defenders of the present policy put forward a plea that might well be examined here. They say that while the consumer will benefit by these changes the producer will not suffer, because prices of commodities have risen to twice or thrice their pre-war values and are likely to remain there for many years. Therefore the Indian producer will continue to receive as much money for his produce as he used to do and will have no reason to complain.

How hollow the above argument is will be made clear in the next Chapter.

CHAPTER II.

DEPRIVING THE PRODUCER OF HIS JUST DUES A FRAUD EVEN IF PRICES ARE HIGHER.

In the previous Chapter I have tried to explain what the Indian currency problem really was, what a standard unit meant and why any tampering with such standard unit would be a fraud. I have further shown that it is no less a fraud if the rupee is appreciated than if it was depreciated. I have also drawn attention to the fact that this cheating the cultivator out of the full reward of his toils by the manipulation of the rupee was not justifiable. We shall now consider the stock argument of the apologists of the Government policy that no harm was done to the cultivator because in consequence of the great rise in commodity prices, the cultivator would be getting as much money for his produce to-day as he used to do and should have no reason to complain.

The rapid decline in commodities all over the world since the boom of 1920 has knocked the bottom out of this argument. However, even assuming that prices had remained high to-day would that be any justification of the change? Most certainly not. Let us again remember that the coin is a standard measure and then again consider the case of the grain dealer, vis-a-vis the cultivator. If, when taking delivery of the grain, the dealer used a larger 'mapli' to defraud the cultivator and secure more grain for the same money, would it be a valid defence for him to say that the crops were bumper and that the cultivator would anyhow still be getting the same amount of money although a larger 'mapli' was used, and that there was therefore no harm done. Would any one accept such defence? No. The dealer would still be considered guilty of fraud. No honest man would admit that the use of a larger 'mapli' did not matter, because crops were bumper. If the crops were bumper, it was the luck of the cultivator, and no one would agree that the dealer had any right to make a fraudulent use of the 'mapli' to deprive the cultivator of more money. Similarly, if world prices were good, and if the cultivator was likely to get more money thereby, no one had any right to deprive him of his increased earnings by manipulation of the 'mapli' of value *viz.*, the rupee coin. Government defend their action on the ground that they must save the consumer. On the same analogy a man may with much greater justification rob his neighbour if he can show that his own family was starving and he had to do something for them. In short, this argument about the producer anyhow getting the same amount of money is tantamount to saying that there is never any harm done in robbing a wealthy man, because he would still have plenty of money in any event. Therefore, even if the producer was much better off as a result of the rise of prices, that would be no reason for quietly robbing him of part of his hard-earned income for the benefit of the so-called consumer. However, as a matter of fact, he is not better off at all. On the contrary he is worse off than he was in July 1914 if the Index numbers of Indian prices are any guide. According to such Index numbers, the average price level has risen about 80% over July 1914, but this average figure when more closely looked into reveals the curious fact that while tea or foreign refined sugar or cotton are very much higher than this average level, most of the articles of Indian produce—and it is on these that the mass of the agricultural population depend for their income—are far below this average level. We shall examine this question more in detail in a later part of this work, and I hope to then make it clear how insignificant a proportion of the total population this so-called consumer is for whose benefit the producer is to be robbed of part of his just dues.

I am sure even if the consumer was numerically a much larger section of the population than the producer (which can never be the case in an agricultural country like India) no honest man would try to devise methods of robbing the producer in order to help the consumer. However, even if it was moral, even if it was legitimate for Government to manipulate currency on such hollow pretence in order to get 12½ crores additional revenue out of the producer why did they try to do it in a way that would have put many times that amount into the pockets of people, who have not a shadow of claim to it.

This method of screwing more money out of the cultivator is taxation in its most undesirable form. People may be taxed—

(1) with their knowledge and with their consent as in free countries, or

(2) with their knowledge though without their consent as in autocratic governments;

but here the producer is taxed to this enormous extent,

(3) without his knowledge and without his consent and in a way that puts far more money into other people's pockets.

The last form of taxation is as near picking the pockets of the producer as anything can be, and that men of avowedly high principles like those that now rule the country should at all countenance and support this policy shows how fraudulent the system is of which they have been made the dupes.

FALLACIES EXPOSED.

How little understanding they have of the whole system that they pretend to handle will be clear from the fallacies that they trot out from time to time as arguments in support of this policy. One of the most astounding of these was the statement made by the Finance Member of the time on the occasion of the introduction of the Coinage Act Amendment Bill on 31st August 1920. He said that our troubles and high prices were due to our being linked to the depreciated currencies of Europe and that the Government was trying to link the rupee to gold. This strange announcement came from one who at that very moment held the old Coinage Act in his hands. That Act linked the rupee to the sovereign, *i.e.*, to gold. The funniest part of it all was that the amendment was directed to linking the rupee to this same sovereign.

This same fallacy has been put forward by the present Finance Member in his public utterances on this question. He has started by assuming that all the agitation about exchange was with a desire to keep the rupee linked to sterling and he has, therefore, more than once warned us against the dangers of this linking with sterling in case sterling went rolling down the abyss of currency depreciation. It may, therefore, be well to once more make it perfectly clear that in all representations by the Indian Commercial community the demand has been to go back to the pre-war ratio, which linked the rupee to gold and gold only.

Another equally untenable statement put into the mouth of the same Finance Member in 1920 was about the melting point of the rupee. The Finance Member said: "Silver now stands at 61d. I would again remind the Council that at the Rs. 15 parity the melting point of silver was 43d." The implication intended most clearly here was that silver was then 18d. above the melting point. This was quite wrong. The Rs. 15 parity was parity with the sovereign. The melting point was 43d. gold and the 61d. quoted on that day was sterling (or paper money price) and equalled only about 45d. gold. When such insincere and unsustainable arguments had to be trotted out in support of this policy, is it not clear that it has no legs to stand on?

So long as sterling was very much depreciated in terms of gold, this mixing up of the issue enabled the apologists of Government to satisfy the layman that no action was possible even though it might have been desirable, but in the last twelve months there has been a most decided change in the value of sterling which has constantly appreciated until it is within less than 2 per cent. of the gold par. Not only has sterling approached par but there is an insistent demand by the best banking opinion in England, Australia, South Africa, etc. that the full gold standard and a free market for gold should be now established in England at the earliest possible moment. In view of this it is no longer possible for the apologists of Government to defend their policy on the ground of depreciation of sterling. They are, therefore, falling back more and more on platitudes like the disorganization of economic conditions all over the world and the advisability of India's waiting till the situation came back to the normal. But the fact remains that South Africa, in spite of similar counsels of wisdom, has decided to revert to the gold standard from the 1st July next without waiting till England could take similar action. Our position in this country is to-day so extremely strong, we are to-day able to command such a large amount of gold in settlement of our balance of trade, that this country could venture on a gold standard to-day even more confidently than South Africa, but it does not suit Government and the question is therefore postponed on every possible pretext. We are of course told that it is all done and has always been done in the interest of this country and this country alone, but the well-known Bullion dealers Messrs. Montagu in one of their circulars definitely express the opinion that India's continual drawing of gold postpones the day when England can go to a gold standard, and in any case makes it more difficult for England to do so. They are no doubt giving expression to the opinion held in high financial circles in London and it is, therefore, not very difficult to understand why the powers that be at the India Office, who really have the last word in the manipulation of our currency, are so unwilling to allow us to go back to the gold standard immediately.

Fortunately for this country, all attempts to establish the preposterous 2sh. ratio appear to have been altogether abandoned. There is, however, still a great hankering for a higher ratio than 1sh. 4d. because not only does it make budgeting easier by getting a few crores more out of the producer without his knowing it, but it benefits every European in this country whether official or non-official in his own personal remittance Home. Therefore exchange has been gradually screwed up to 1sh. 6d. and has been maintained there for the last few months. We do not yet know whether it is at this point that they want to fix the ratio or whether it is merely an attempt to accustom the Indian public to this ratio and thus prepare the way for another penny or two higher in coming seasons. By what methods exchange was screwed up will be explained in the next Chapter.

CHAPTER III.

METHODS OF PUSHING EXCHANGE UP.

In the previous Chapters I have tried to show why it was a fraud to change the standard unit and why such manipulation of the Currency was unjustifiable even in the interests of the so-called consumer, because no honest man would condone the robbing of Peter to pay Paul. I have also pointed out that Exchange had been gradually screwed up to 1sh. 6d., and we did not yet know whether this was the objective or was only an intermediate stage to accustom the public to this higher rate and prepare it for another penny or two rise the next season. While it is not possible for us to say what our currency manipulators are ultimately aiming at, we can at least keep a close watch on their manipulations and at least show that while under the present system of Government we are helpless and cannot prevent the continuance of the present disastrous policy, we were by no means its dupes, and that we could see how Exchange was being screwed up and that we knew that it was not a *natural* result of India's present economic position as the apologists of Government would have us believe. We shall now consider the methods of screwing up Exchange that have been made use of by Government during the last 5 years.

HOW THE RUPEE IS MADE DEARER.

Screwing up rupee Exchange really means making the rupee dearer in terms of sterling. Now let us consider how any commodity becomes dearer in the market. We know that it becomes dearer if the supplies are too short. Thus, as we know, foodstuffs become dearer when crops are short. Similarly in every other commodity, prices go up as soon as its supply becomes insufficient to satisfy the current demand.

In the same way if it is considered desirable to make the rupee dearer in terms of sterling, it can be done by making the supplies insufficient, and this is the method that Government have adopted and consistently adhered to in the past 5 years. The man-in-the-street may wonder how Government can make the supplies of rupees scarce. The explanation lies in the fact that only Government can create supplies of Currency. In the first Chapter I have shown that coinage was evolved as a means of obviating all the bother and waste of time and energy involved in having to break up and weigh a suitable piece of gold or silver ingot for payments to be made. The Government undertook to make these pieces of definite weight and definite fineness for the use of the public. In the present times it is impossible to go back to the methods of old and offer to pay by pieces broken off from an ingot. Nobody would accept such payment. Everybody would by law be entitled to insist on payment in current money of the country *i. e.*, currency. It is this that gives Government its power of manipulation. If it wishes to make the rupee dearer, the only thing it has to do is to refuse to create more currency. Then the normal demands for currency will gradually do their work. The supply of currency will gradually get absorbed, and, as more begins to be wanted, the scarcity will begin to be felt, and such scarcity will compel such users as needed it badly to pay more for it.

ABSORPTION OF CURRENCY.

This brings the layman up against two more problems. Currency is coin or Notes. They cannot be eaten. They can only change from one hand to another in ordinary business dealings. Then it would seem to follow that the supply of currency should remain constant and that there could be no absorption and no scarcity. But in conditions of present day life increasing supplies of currency are as much a necessity to the Economic body of every growing (progressive) country as increasing supplies of blood are necessary to the human body as a child grows older. We know that figures of railway or tramway traffic show an almost constant growth from year to year. This does not need a proportionate increase in the population, but indicates an increase in the *movement* of the same or nearly same population In like manner, with progress of society with improvements in the means of communications like the telegraph or telephone, and with increases in the means of transport of goods from place to place, there comes an enormous increase in what we may call the total *traffic* of buying and selling *i. e.*, in the total exchanges of goods. And as such exchanges of goods require currency as the medium, the growth of the exchanges requires the growth of the supply of this medium. Similarly any increase in Railway or Tramway fares, any increase in the wages of labour also call for the regular use of larger and larger amounts of currency in circulation. Then again, if a man sells the produce of his labour and earns say a hundred rupees a year, he does not necessarily spend all the hundred. He may put some of it by for future needs. In other words, out of the hundred rupees about ninety or ninety-five might be spent and the rest put away for a rainy day. This 5 rupees put away is currency gone out of circulation for the time being. It is what is called absorption of currency. In a vast country like India with its toiling millions, if only eight annas per head was so put away, it would mean fifteen crores of currency going out of sight every year. This shows how currency can get *absorbed* and necessitate additional supplies to carry on our daily transactions. But apart from this we want further supplies almost every year. It is in the following way.

WHY ARE FRESH SUPPLIES NEEDED?

In every nine years out of ten, India's balance of trade is in favour of India. In many years there is a surplus left in favour of this country after paying for all imports, all Home Charges, all bullion etc. As you cannot compel a man to spend every pie he earns, so you cannot compel India to spend every pie it gets from the proceeds of its exports. It may and frequently does want to bring in the balance of the money in cash. When the mints were open *i.e.*, up to 1894, it imported silver to the extent of this balance and took it to the mint and had it coined into local currency. Since the closing of the mints and the introduction of the gold standard it can only import gold to the extent of the cash balance due to it, and have that gold exchanged for local currency. With the improvewas represented by Notes in the Circulation. The last three periods show enormous expansion, because, the world paid extremely high prices for commodities of all kinds, and the amount of cash, India had to bring in was far larger. However, it may be well to point out in passing that the 179 crores of to-day at to-day's level of prices and wages does not represent more than about 100 crores at the pre-war level and from the figures given above it will be seen that it would have grown normally to that figure or more even if there was no War. We must also remember that apart from the increase in the supplies of currency in pre-war days that the above figures indicate, there were further additions of many crores year by year in the shape of coined rupees and of sovereigns.

NECESSITY OF FRESH SUPPLIES AND EFFECT OF GOVERNMENTS REFUSAL TO PROVIDE THEM.

The lesson, however, that I wish to emphasise from the above figures is that even in pre-war days a constantly increasing supply of currency was a necessity. It is here that the power of Government to manipulate comes in. By refusing to convert our foreign cash balances into local currency they pinch the holders of such balances, and compel them to pay more and more foreign money for every rupee that they want to exchange into. These holders of our foreign balances are really the owners of the wheat or seeds or other Indian produce, who have surplus produce to sell overseas, and who want to get in the proceeds. As the bulk of our foreign trade is done in sterling currency, these holders of foreign balances are perforce holders of sterling, and as Government will not convert it into local currency they are compelled to offer more and more sterling to whoever gives them rupees in exchange. This is what rise in Exchange means and this is how it is brought about. I say "Government refuse" but they do not do it in so many words. What they do is to keep the 2sh. rate on the Statute Book. They can then truthfully say "Gentlemen, we do not refuse. Bring us your sovereigns and we was represented by Notes in the Circulation. The last three periods show enormous expansion, because, the world paid extremely high prices for commodities of all kinds, and the amount of cash, India had to bring in was far larger. However, it may be well to point out in passing that the 179 crores of to-day at to-day's level of prices and wages does not represent more than about 100 crores at the pre-war level and from the figures given above it will be seen that it would have grown normally to that figure or more even if there was no War. We must also remember that apart from the increase in the supplies of currency in pre-war days that the above figures indicate, there were further additions of many crores year by year in the shape of coined rupees and of sovereigns.

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The apologists of Government do not tire of telling us that the 2sh. rate is harmless and innocent, and the layman, who cannot see what effect the existence of this rate in the Coinage and Currency Acts has on the conversion of our foreign balances, may be easily deceived into thinking that the rate was harmless. But it is not. *It is really the most potent instrument to-day in the hands of Government for rigging exchange up at will, because it enables Government to refuse to convert gold into Indian legal tender money at current rates.* But this method of refusing to convert our foreign balances and thereby bring about scarcity has not seemed sufficient to Government. They wanted Exchange to be rigged up to 2sh. far more quickly, and so they not only stopped fresh supplies but began to artificially reduce even the supplies that then existed.

How this was done, and how this method of reducing existing supplies is sedulously followed even to this day will be explained in the next Chapter.

CHAPTER IV.

In the last Chapter I have shown that the way to raise the Rate of Exchange was to make the supplies of Rupees scarcer and have said that Government was steadily making existing supplies scarcer for the last 5 years.

Now the figures of the circulation of Currency Notes as given in the last Chapter for 1919–20 and 1923–24 although they do not show the same rate of expansion as in the pre-war years, do not on the face of them show any important contraction and therefore these attempts to reduce supplies will not be readily understood by the layman.

SUPPLIES OF CURRENCY FROM OTHER SOURCES IN THE PRE-WAR PERIOD.

In the pre-war period however there were other sources of supplies of Currency besides the Note Issue which provided additional supplies of the currency required. If we only look at the circulation of Currency Notes, there appears an expansion of only 15·89 crores between 1909–10 and 1913–14, but in the same period we had further additions to the circulating medium as follows :—

Sovereigns imported :—

1909–10	...	13·86	crores.
1910–11	...	12·81	„
1911–12	...	27·51	„
1912–13	...	26·69	„
1913–14	...	12·75	„
Total	...	93·62	crores

a considerable part of which must actually have been used as currency, because gold for the arts in the shape of bars also continued to be freely imported in the same period. The remainder of these sovereigns must have been largely used for what is superficially called "hoarding", but this hoarding is really putting aside a part of the current income for a rainy day. The adoption of the ratio of 2sh. gold to the Rupee in our Coinage and Currency Acts has since 1920 absolutely cut out this vast mass of gold currency from use as currency. Even to-day crores of sovereigns are imported but they all go into hoards as they cannot be used as currency. You can only sell them as you would sell gold ornaments at a pinch. Even when they are thus sold it only results in currency already existing in the pockets of the buyer being transferred to the seller. The sale does not bring in any fresh supplies. In the same 5 years silver Rupees were coined as follows: (these figures are for calendar years).

1909	...	2·23	
1910	...	1·77	lacs.
1911	...	1·53	
1912	...	12·42	
1913	...	16·32	
Total	...	34·27	

As the increase in the Note circulation was only 15·89 crores it means that 15·89 crores of the new coin went into the Reserve as backing to the additional notes issued in this period and the rest *viz.,* Rs. 18·38 was issued against tender of either gold or sterling and was added to the general circulation. Therefore it will be seen that while the period 1909-10 to 1913-14 shows an addition to circulation of

only 15·89 crores in Notes

we had further additions in the shape of

93·62 in the shape of sovereigns
18·38 „ „ rupee coin also

thus making a total of 127·89 crores and therefore the extent to which India was able to convert its foreign credits into Indian legal tender currency during the 5 years 1909-10 to 1913-14 was 127·89 crores and not 15·89 crores only. By the simple " innocent and harmless " expedient of keeping the sovereigns as legally the equivalent of Rs. 10 only, the whole of this enormous supply of currency has been cut out from our circulation, because neither could sovereigns act directly as currency, nor could gold be tendered by Banks to get local currency in Exchange. I would therefore ask all who take an interest in this question to remember that Government has been, by the simple expedient of keeping their absurd but "innocent" ratio alive, able to cut out additional supplies from the money market to the extent of 20·25 crores a year that would have come in in the shape of sovereigns or of gold tendered to the Currency Office, and our money market, and through it our trade industry and agriculture, have been deprived of these enormous resources.

However, this indirect contraction did not satisfy the authorities. They probably thought that it might prove too slow, and they were also possibly afraid that before their new rate of 2 sh. had been sufficiently well-established, world conditions might change and their whole applecart might be upset. They therefore decided to contract the supplies of currency artificially.

ARTIFICIAL CONTRACTION OF CURRENCY.

The only way to do it was to do away with some of our Reserves and then the Notes that stood against them could be cancelled off. They therefore came forward with offers of Reverse Bills, the pretence for the sales of such Bills being that exchange was going down and had to be supported, although as a matter of fact our Exchange position then was the strongest ever known. This sale of Reverse Bills was one of the most discreditable things ever done in the name of currency policy. The tricky gold exchange standard system has beguiled our rulers into the belief that it was merely an exchange operation and that there could not be anything dishonest about it. This is not the case.

REVERSE BILLS.

The Reverse Bills are in essence an operation of the Paper Currency Department. As remarked in an earlier part of this book gold that should have come to India in payment for her exports was kept in London and rupees or notes were issued here. If this gold had not been artificially diverted to London, it would have come to Bombay and gone into the Paper Currency chest here, and notes would have been issued against it. Therefore the operation of issue of notes is absolutely identical whether it was against gold deposited in London or in Bombay the difference being not in the *nature* of the operation but in the *location* of the reserve.

PAPER CURRENCY OPERATIONS ANALOGOUS TO WAREHOUSING OPERATIONS.

Now what is a Paper Currency Operation? It is, in simple English, nothing more than an ordinary warehousing operation. When a warehousing company takes charge of goods, it issues receipts entitling the holder to claim the goods against presentation of the receipts. Divested of high sounding names, the paper currency chest is a warehouse where a particular kind of goods is taken in and receipts issued against same. The only difference is that this warehouse handles only one kind of goods, *viz.*, the standard metal and the receipts are all for uniform quantities of this metal *viz.*, the standard coin and its multiples. These receipts are our Currency Notes; the goods are the amount of coin of the country that they stand for, and like ordinary warehouse receipts (or warrants) they entitle the holder to call for the goods named in such warrants on demand.

Let us take the analogy further. Suppose a warehouse company has taken in—

100 cases of cotton cloth
100 „ „ silk „

and issued receipts against them. Would the holder of the receipts for the cases of cotton cloth be entitled to get silk cases on presentation of his warehouse receipts? Surely not. Again let us suppose there were deposited in this warehouse—

A. 16 cases of cotton shirting
B. 24 cases of same shirtings

Would the holder of receipt of A have any right to delivery of the 24 cases? If the Godown-man in charge delivered 24 cases against the receipt for 16 cases, he would be guilty of gross negligence. If he did it knowingly he would be guilty of collusion and embezzlement.

Now let us look at the currency warehouse. The goods in it was the gold originally deposited against issue of notes. These notes were the godown-warrant. The Controller of Currency was the godown-keeper.

Some of these godown-warrants were printed on paper, others on strips of silver, but they were identical in nature, and both kinds—the note as well as the coined rupee entitled the holder to call for gold.

If the godown was in India the gold would have been immediately delivered and the operation would be closed. But our godown was in England and so the godown-man here (the Controller of Currency) took in the godown-warrants (notes and rupees) and issued an order on the London godown to deliver the gold there to the holder. This order is our Reverse Bill.*

Once the above is clearly borne in mind it will be seen that the Reverse Bill sales were akin to the operations of a dishonest warehouseman who delivered something different from what had been originally deposited, or handed out a larger quantity than had been so deposited originally.

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* Some of my readers will wonder why it is called a Reverse Bill. The reason is this. Ordinarily India's balance of trade is in its favour year by year. Consequently India had every year surplus cash proceeds to send back to India, and Bankers tendered them to the Secretary of State as gold or sterling, and asked him to give a Bill on the Government in India ordering the issue of Rupees to the holder of this Bill. This is what is known as the Council Bill, and was the only one known and used in nine years out of ten. When there was an abnormal year, and famine or short crops or depression in world trade resulted in an unfavourable balance for India *the above process had to be reversed*. Bankers would then require to send money—*i. e.*, gold or sterling—out of India to pay to our creditors, and they would then tender Rupees to the Currency Department, and ask for a Bill on the Secretary of State calling upon him to give gold or sterling to the holder of such Bill. *As the usual procedure had to be reversed* in such years and the Bill drawn in the other direction, it came to be known as the Reverse Bill.

The godown-warrants (notes and rupees) issued before the war were against gold. If the Secretary of State accepted sterling, it was because sterling was then identical with gold.

During the war sterling drifted apart from gold and the Secretary of State knew it. He still went on issuing these godown-warrants (notes and rupees) although he knew that what was being deposited was sterling, not gold. He might be excused for this on the ground that most people then believed that this was only a temporary phenomenon and that sterling would be identical with gold again before long, but when these sales of Reverse Bills took place in 1920 there was no excuse for such ignorance.

The pre-war godown-warrants (notes and rupees) were against 16d. gold. The war period warrants were against 16d. to 18d. sterling. Owing to the fatuous way in which the business was handled the goods in the godown (our gold reserves) had depreciated and was practically all sterling.

Therefore when these godown-warrants (notes) began to be presented and delivery of goods became necessary, the only honest course was to deliver what was deposited, *viz.,* 16d. sterling for each rupee. Delivery even of 16d. gold was like the case above cited of delivering silks when the original deposit was cotton goods.

However what was actually done was far worse. Although the godown-keeper knew full well that the original deposit was only 16d., he coolly treated the warrants as for 24d. each and began to deliver at this rate. If an ordinary godown-keeper had delivered 24 bags of grain where the original warrant had been issued against 16 bags only, a very serious view would have been taken of his action. It would be embezzlement of his employers' goods. Our currency godown-keeper was guilty of something similar because *he knew full well that he was delivering more than was originally put there, and that there was going to be a big shortage at the end.*

The men in charge of India's currency chest have been guilty of similarly despoiling thier employer, *viz.*, India, and would be called to account if we had a representative Government answerable to Parliament as they have in England.

ENORMOUS LOSSES.

About 55 crores of India's money has been lost in these operations by Reverse Bills and through Post Office Money Orders apart from the further losses of many crores incurred in attempts to depress the price of gold in India by cheap sales of gold. To add insult to injury, we were told that this loss was only temporary and that it would be all wiped off in a few years from the annual gain of 12½ crores. This meant that India had been robbed of 55 crores by the Reverse Bills operations and to make up this loss the pockets of India's own children—and that the poorest of them too *viz.*, the agricultural population—are to be picked every year to the tune of 12½ crores for ever more.

SALES DISCONTINUED.

This despoilation of the country's resources went on for months. Enormous speculation was engendered and crores of rupees went into the pockets of people who had not the least claim to it, but whom Government was pleased to consider "bona fide" remitters. In spite of all they could do, Exchange kept going down, and as they had nearly come to the end of their tether, and had also meanwhile got the new 2sh. rate safely on the Statute Book, these sales of Reverse Bills were discontinued. This was largely, no doubt, also due to the fact that by that time public opinion in this country had been excited to a very high pitch and the gentlemen who had been pulling the strings from behind the scenes probably thought it most prudent to "lie low and say nuffin" for the time being.

AD HOC SECURITY.

But these gentlemen had not yet completed their programme. They had destroyed the Reserves but had only been able to destroy a part of the note circulation. This was because when 15 lacs of rupee notes had been issued here in the old days, the Secretary of State had received and placed in Reserve only £ 100,000. When Reverse Bills were sold at say 2sh. 8d., it meant that the man who got the above £ 100,000 paid out to him from the Reserve paid to the Currency Office only 7½ lacs. These 7½ lacs paid in could of course be immediately cancelled, but there would be 7½ lacs still outstanding although their Reserve backing would have disappeared. As under the Act no Notes could remain outstanding without a corresponding Reserve, a Reserve had to be got up for the purpose. It was done by creating Securities and handing them to the Currency Office. These are what are called "ad hoc" created securities.

KEEPING UP APPEARANCES.

Let us hark back to the case of the warehouseman whose servant entered into collusion with the owner of the Receipt marked A and delivered away 24 packages where the receipt called for only 16. The warehouseman knew that the holder of receipt B might some day turn up and call for his 24 cases. To avert suspicion and keep up appearances he goes and puts in 8 empty cases to take the place of the 8 that had been embezzled away. He knows right well that he is responsible to B for these 8 cases that had disappeared, but says to himself that he will get B to sell 8 cases to a friend of his own and get the delivery order issued, and can then quietly cancel off these 8 cases as if they had been actually delivered, without anybody being the wiser. The holder of receipt B has no suspicions of all this, and thinks his 24 cases are all there. A broker then persuades him to sell the 8 cases, and the warehouseman gets the delivery order passed on to him and pays for it, and the position is saved, because the balance of B's receipt would be only 16 cases and those 16 cases could be shown as being in the Godown.

These "ad hoc" Bills are exactly like the empty cases that the warehouseman had put in as a make-believe when the goods had disappeared, and it is to such miserable shifts that the authorities were driven by their most misguided currency policy.

Apologists of Government will, no doubt, try to argue that this comparison of currency operations with warehouse operations is all a stretch of my imagination. They will, no doubt, urge that these Notes are a promise of Government to pay on demand, and that they are issued on the general credit of the country. I would point out in reply that the very fact of the creation of these "ad hoc" Bills, *the very necessity that they felt to show that the goods were not spirited away but were still there*, shows that the Note issue is in essence a godown operation, although of course, ultimately, the value of a godown-warrant depends on the credit and resources of the warehouseman in case goods were lost damaged or misappropriated.

WAS THERE AN HONEST ALTERNATIVE?

I might be asked what should the Government have done. My answer is that the Paper Currency operation is a godown operation and a consideration of the warehouseman's duties and responsibilities furnishes the answer. Even assuming for the sake of argument that Reverse Bills were necessary, India's currency godown-keeper should have said that he could not deliver what was never put there, and that until further reserves were built up by deposits at the 24d. gold rate, he could not deliver more than 16d. against Reverse Bills. This was the only honest course. That would, of course, have precluded any Reverse Bills being sold except at 16d. but the position would have been no worse than it ultimately was, when Reverse Bills had to be stopped after the country had been put to a tremendous loss, and after its sterling resources had been so depleted that the Government had to admit its helplessness to do anything to remedy the situation when Exchange went far below even the pre-war rate. How bad the situation really was may be better understood when I say that in less than 6 months of the passing of the two Acts making 24d. gold our legal ratio, the actual market rate was 15⅛d. sterling and at the cross rate of the day it really meant only about 12d. gold. As our pre-war basis was 16d. gold, this means that by this criminal waste of our sterling and gold resources we found ourselves helpless to maintain even our pre-war rate, let alone the fantastic new rate of 24d. gold.

From what has been already said, it will be clear to all who have followed these pages that no Reverse Bills should have been offered at any thing higher than 1sh. 4d. sterling. It would have been a fraud on India to give even 1sh. 4d. gold because what we had got in our currency godown was not gold but sterling. Let us remember that the Bank of England did actually get gold against every pound of note issued (barring of course the fiduciary issue) and yet would not part with its gold. If they did not give gold out freely, it was surely no reproach for India that we, who never had any gold in reserve, declined to give gold against notes.

THE REAL OBJECT OF REVERSE BILL SALES.

But the real object of those who were pulling the strings from behind the scenes was to get a pretext for reducing our reserves, and then reduce the Note circulation to the extent that it became unbacked in consequence, and make the Rupee thereby scarcer and consequently dearer *i.e., to raise Exchange.* Hence these worthy gentlemen pretended that it was their bounden duty to sell these Bills regardless of the consequences. Incidentally these operations removed the Damocles' sword of India's huge sterling Reserves hanging over the London market and calling for conversion into gold as soon as England returned to a free gold market. In the last few months we have seen how nervous and how anxious all those connected with British Finance are as to the possibility of gold being withdrawn from England as soon as England returned to the gold standard and to a free gold market. These men must have heaved a sigh of relief when they saw that our sterling Reserves had been exhausted and that India at least would not be claiming encashment of its very large holding of sterling. Whether these men had any say in the currency policy followed by Government is another matter.

SHOW OF PENITENCE.

The apologists of Government say that all this is crying over past mistakes, that we are all agreed that the sales of Reverse Bills were a serious mistake, that we are all also agreed that the 2sh. rate was fictitious, and they then ask us to forgive and forget, and to co-operate in the work before us for the future. To these apologists and their friends my observations on the Reverse Bills operations will appear at least out of date, if not out of place. My reply to this would be that they are not out of place, because with all their appearance of penitence, and of admission of past mistakes, the authorities have not given up the policy of which the Reverse Bills sales was only a part. As I have already explained *the object of the sales of such Bills was to artificially reduce the supplies of currency and thus force up exchange.* Writing in the middle of 1922--some 2 years after these sales—*Prof. Jevons came to the conclusion that the intention of the Government of India supported by the India Office had been and still was to persevere towards the goal of realising the permanent 2sh. Exchange however long they may have to wait for favourable trade conditions.* This worthy Professor should know, because he was one of the guides philosophers and friends of our Finance Department during the autumn of 1920 when the 2sh. rate was put on the Statute Book. To all those who wish to correctly understand and appreciate the Government's Currency policy during the last three years, I would strongly recommend a perusal of his book called "The future of Exchange" from which I quote above. In the next Chapter we shall see what these worthy gentlemen were after, of course, all for the good of India, and India alone.

CHAPTER V.

WHAT EFFORTS TO RAISE EXCHANGE MEAN ACCORDING TO PROF. JEVONS.

In a previous Chapter I have referred my readers to Prof. Jevons' book called "The future of Exchange". When that book was published our rupee was @ 15 to 15¼d. *sterling* which at the cross rate of the day came to less than 14d. *gold*. Hence Prof. Jevons says in his book that he did not any longer advocate attempts to realise the 2sh. rate, and that it seemed to him that immediate stabilization @ 16d. gold should be the policy adopted. He thought this ought to be now the goal because the 2sh. rate could only be realised by bringing about a fall of prices by 50 to 60 per cent. He then goes on to explain the consequences if such a heavy fall of prices were to occur and says (page 202).

> "Such a tremendous fall of prices while welcome enough "to those in receipt of fixed incomes *would spell ruin and* "*hardship for millions of cultivators, would keep Indian* "*industries in a state of depression for several years and* "*would place an undue burden on all debtors including the* "*state itself and disorganise the public finances.*"

I would ask my readers to carefully mark the three specific consequences of a policy of deflation *viz.*:—

1. ruin and hardship to cultivators
2. depression in Indian industries
3. increasing the burden of all debtors

because these are the consequences indicated by a friend of the Government and a Professor of Economics and not by hostile critics of Government's Currency policy who are said to do it from political motives.

Even Prof. Jevons seemed to stagger at the fearful consequences that any attempt to reach 2sh. gold would entail, and therefore advised the abandonment of the 2sh. rate, and suggested 16d. gold as the rate to be aimed at, because this latter rate would mean a less serious deflation of prices. According to him "the only question was as to the practicability of carrying out the requisite deflation *without precipitating something like a commercial crisis*" (page 207). Then follow some remarks which I would ask everyone interested in the trade industry or agriculture of India to read, mark and inwardly digest. The worthy Professor says

"Bankers and financiers, and most business men, dislike "the process of deflation, because it involves *an abnormal* "*tightening of the money market*, *the forced realisation of* "*stocks of goods*, and *a fall of commodity prices*. Loans "become more difficult to obtain or renew, and at the same "time the security of existing commercial loans or paper "depreciates. Bankers naturally have a very anxious time; "and if they do not work in co-operation, and with the *support* "of a central institution like the Imperial Bank or if need be of "Government, *a commercial crisis is possible*. In any case, "*there are bound to be some suspensions of commercial firms*. "This has always happened in England and America when "deflation has set in after a boom. It is, in fact, a necessary "pre-requisite to the restoration of a healthy condition of "markets and trade.

' The whole question is one of degree. It would be "disastrous to create a first class commercial crisis by any "well-meant attempt to support exchange. But, if the banks "have timely warning, and the spirit of consultation and co-"operation between all parties prevails, the difficult but "necessary period of financial reconstruction can be safely "passed through.

. . . . "I repeat that the whole question is "one of degree. Sir Malcolm Hailey appears to be seized with "undue alarm at the possible results of deflation and to "under-estimate its positive advantages . . . . . If ever "there was a time when deflation was needed, it is now; and "I see no reason to believe that it will become any easier as "time flows on. The longer it is postponed the longer will "the revival of trade and confidence be deferred. In every coun-"try, times arise when the money market and business system "need purging to restore a normal and healthy circulation "of goods and money. That purging is provided by deflation, "and the consequent contraction of credit and fall of prices. "Uncomfortable—Yes! But no good doctor spares his medi-"cine to save his patient some discomfort" . . . . . "The amount of deflation necessary to stabilize exchange at "1s. 4d. ought not to cause a fall of prices in India by more "than 16 or 17 per cent in twelve months. Neither will the "necessary deflation cause a commercial crisis if carried out "gradually and after due warning to the banks and the com-"mercial public, the pressure being applied in the smaller "financial centres as well as Calcutta and Bombay." (Page 210—213.)

The italics are mine. This is what India has to expect and to be prepared for as a direct consequence of Government's efforts to raise the rate of Exchange. We shall now see what methods he advocates.

PROF. JEVON'S THREE METHODS.

After explaining how any rate—even that of 2sh. can be established by adequate deflation or contraction of Currency, Prof. Jevons tells us that there are three methods of contracting currency (page 190) :—

1. Sale of Reverse Bills and cancellation of Currency Notes for an amount equivalent to the price paid for these bills.

2. Realization of the metallic portion of the Reserves (and of course cancellation of the Notes that came in as the price of such realisation.)

(This means sale of gold and also melting down of the silver coins and sale of the same, as he explains on page 191.)

3. Sale of the securities of the Government of India in reserve (the object being again to cancel off the Notes that came in as the purchase price).

APPLICATION OF FIRST METHOD.

Then, in explaining the actual application of each of the above methods on pages 204-5 he couples the financing of the ordinary expenditure of the Secretary of State from the Reserves of the Currency Department with the contraction of currency by Reverse Bills, and rightly too, because what happens is this.

In sales of Reverse Bills to the public, the public (*i. e.*, Bankers and merchants) pay in Notes here to get sterling from the Currency Reserves in London, and it is these Notes that are cancelled off.

In the financing of the Secretary of State through the Currency Reserves, the Secretary of State gets the sterling from the Reserves in London, and the Government here pay in its equivalent in Notes, and it is such Notes that are cancelled.

It will, therefore, be seen that both transactions are identical. They are both sales of Reverse Bills by the Currency Department. In the first case, it is sale to the public, and in the second, it is sale to Government. That is the only difference. In fact on page 207 the worthy Professor says this would involve deflation, just as Reverse Bills do.

APPLICATION OF SECOND METHOD.

Prof. Jevons then comes to the second method above mentioned, *viz.*, sale of metallic reserves, and is good enough to explain that :—

" In the balance of trade this (*i. e.*, sale of gold) *is equivalent* " *to the sale of Reverse Councils* to an amount equal to the value "of the gold whose import is thereby prevented."

I have been at some pains to indicate steps, which Prof. Jevons has recommended as necessary in order to establish the Rupee at 16d. gold or 18d. or 24d., because as he distinctly says it is perfectly possible to establish any one of these rates by deflation of a sufficiently drastic nature.

The spokesmen on behalf of Government have assiduously repeated over and over again that there was no manipulation, and that it is only natural causes that were tending to raise exchange and that exchange was rising from such natural causes, the latest claim of this nature being that made by the Finance Member in para 46 of his speech introducing the Budget for 1925-26. He there affirms that "natural causes connected with world movements of "exchange and prices have recently tended to raise exchange." He further emphatically asserts (in para 41). "There is no foundation "for the charge which I have more than once denied categorically "that the Government of India's policy has been to push exchange "up." I have not the least doubt about the bona fides of our present Finance Member or his predecessor. They, no doubt, perfectly honestly believe that they are not doing anything to push Exchange up. But, although they may sincerely hold this belief, the various steps they have taken for the last four years, tending to deflation in one form or another, so faithfully follow out the policy advocated by Prof. Jevons in his book that the conclusion is irresistibly forced upon us that our Currency authorities here are really carrying out a policy laid down for them by some currency expert in England, and of the real bearings of which policy on Rupee Exchange and on India's economic welfare, the authorities here have no conception.

Prof. Jevons clearly lays down that three things should be done to push exchange up, *viz.*,

1. Sale of Reverse Bills
2. Sale of metal from the Reserves
3. Sale of securities from the Reserves

each of these having the same object, *viz.*, to get a pretext to cancel Notes off and contract the circulation further and further. Let us now consider the first, *viz.*, Reverse Bills.

FIRST METHOD—REVERSE BILLS.

Everybody now knows that the authorities made a start with their first method as soon as the recommendations of the Babington Smith Committee to establish the 2sh. Gold rate were accepted by the Secretary of State. To the uninitiated it may seem that these had been discontinued four years ago. But this is not the case. Only the *public* sales were discontinued, because the public in India perceived that India's assets were being dissipated, and raised up a terrible hue and cry. The experts behind the scenes saw that their game had been exposed, and so the *public* sales were shut down, but they resorted to the other form of Reverse Bills *viz.*, sales to the Secretary of State of Sterling in the Currency Reserves. As explained above on the authority of Prof. Jevons *these were also Reverse Bills*, but, as the operations were not public, they did not draw the attention of the public (except for a few students of currency) as the other sales had done. *The sales to the Secretary of State continued until our Sterling holding was exhausted.* As this was the one avenue of rapid deflation that could be followed up without public attention being drawn to what was being done, further sterling purchases were made, and put into the currency reserves so as to be handy when the next withdrawal for deflation purposes appeared desirable. The experts behind the scenes are evidently not yet satisfied with the amount of deflation so far effected. This is why the question of our returning to the gold standard is strenuously opposed, because then, further issues of currency would be automatic, and would be against gold tendered to the Currency Department. They know well enough by now that Indian public opinion would never tolerate the removal of gold from our currency reserves except to meet a very adverse balance of trade, and they, therefore, understand that their power to contract the supplies of currency and push exchange up would be gone.

SECOND METHOD--SALES OF METAL.

I shall now come to the second of the above items in the prescription of our Currency Doctors, *viz.*, Sale of Metal (Gold and Silver) from the Reserves.

We have already seen that Government had not ceased applying the First Method *i.e.*, Selling Reverse Bills. I shall now show how they tried to administer this second Currency drug to India's economic system. They had been selling gold in 1920, and once sold it down to as low as, I believe, Rs. 18 to the tola. This was to frighten off Indians from putting their money in gold by showing that it was a losing operation. If Indians could have been so frightened off and the rate brought down to Rs. 16 for the tola, the Rupee would have been ipso facto established @ 2sh. gold. Unfortunately for the plans of our Currency Doctors the attempt failed. All the gold offered was absorbed and ultimately Government had to give it up. This was part of the disastrous mistakes of 1920, and if that policy had been really given up, we need not have said more about it. But our currency doctors, whoever they are, were not so easily turned back from their purpose.

HOW PROFITS WERE TO BE MADE FOR INDIA.

One fine day they come out with a most beautiful scheme to sell the gold in the Reserve. And why? To deflate? Oh no. They were too clever to admit anything of the sort. Instead, they dangled before the lay public prospects of the profits to be made by selling off the gold in the Currency Reserve and pocketing the difference between the number of pounds sterling realised and the nominal book value of the said gold. In a press communique issued early in November 1923 the Government notified a transfer of £ 2 million of the gold in the Currency Reserve against a corresponding transfer to the Reserve of Sterling securities, and tried to pacify public opinion by saying that our metallic reserve was as much as 68·21%, the implication being that it did not much matter whether there was £ 2 million of gold more or less. Then the communique went on to say

"This strong position, combined with the existing premium on gold, renders it advantageous to convert a small portion of the surplus metallic holding into interest bearing securities. The gold can be replaced at a profit as sterling approaches parity with gold and a convenient opportunity for reversing the transaction arises."

Here one may well ask how it was that this wonderful idea of making profits by selling its gold and replacing it when sterling approached par never occurred to the British Treasury authorities or to the Bank of England when sterling was as low as $3·20 to the £ early in 1920. What tremendous profits could they not have made for the poor British Taxpayer, who is already so heavily burdened? We find on the contrary that they went on accumulating gold in their reserves when the cross rate on New York was so low that every additional million must have meant a very heavy loss to the Bank of England. Are we to understand that the British Treasury authorities and the Bank of England do not have the same concern for the interests of the British taxpayer that our Finance Department has for the Indian Taxpayer. Is it not quite clear that the Bank of England would not have considered for a moment any proposal to sell any part of its gold reserves as the Indian Currency authorities proposed to do?

Then, again, this Communique held out the hope that the gold now sold could be replaced at a profit when Sterling approached par, and meanwhile the proceeds were to be invested in Sterling Securities and to earn interest, all this to be done, of course, for the benefit of the revenues of India. We may well ask what would have happened if something had gone wrong with Sterling, and Sterling money and Sterling securities had gone the way of the German Mark or the Russian Rouble. This may seem to some a highly exaggerated point of view—even a fantastic view—to take of the position of the £ Sterling, but if it is exaggerated or fantastic, it is the fault of Sir Basil Blackett himself.

When Government wanted to sell the gold in the Reserve, the Finance Department dwelt on the possibilities of Sterling approaching par, and our being able to replace the gold at a profit, but only a month later *i.e.*, on 5th December 1923 when he was discussing the pros and cons of stabilising the Rupee @ 1 sh. 4d. sterling before the Associated Chambers of Commerce at their annual meeting, it suited Sir Basil to show that it was a most dangerous procedure to link the Rupee to Sterling, and he, therefore, drew a lurid picture of things that might happen to sterling. Here is what he then said :—

"I have myself no doubt that sterling will continue to "work its way back to gold parity. But that may be regarded "by some of you as a decidedly hazardous assumption. You "know very well the difficulties which England is facing at "the present moment. On the one hand, the payment of the "American debt involves a direct burden on the exchange, of "which the full effects have yet, perhaps, to be appreciated on "both sides of the Atlantic. On the other hand, internal "resources are being strained by yet another winter of "unemployment. A large and influential body of opinion in "England would favour the deliberate adoption of a policy of "inflation more or less thinly disguised ; and it is possible "that, in spite of warning examples on the Continent of "Europe, the limit of endurance may be reached at which "financial principles will be sacrificed in the hope of relieving "present distress. What then ? England sets her foot "upon the slippery path which leads, according to the Brussels "Conference, to an everlasting bonfire of currency notes."

Is it that Sir Basil and the Finance Department had no such doubts about the fate of Sterling when only a month earlier they issued the above Communique ? I leave it to the reader to decide.

On the publication of the above Communique the Indian Merchant Chamber at once sent a strong protest, but, as will be seen from the above, Government probably feared the possibility of protests and had confronted the public with a fait accompli by informing it that a transfer had been made. The Bombay Bullion Exchange also sent an emphatic protest agaisnt the policy of selling the gold of the Currency Reserves.

It was very probably on account of these protests that this policy of converting gold into Sterling was not pursued any further. If no such protests had been made, all the £ 24 million in gold would have been first converted into Sterling, and then this Sterling would have been quietly paid out to the Secretary of State and a further amount of Notes in circulation would have been cancelled off as soon as the moment appeared opportune. The Finance Department notification waxed eloquent on the profits to be made. No doubt, they honestly believed what they said. It is evident that they had no conception of what the Currency Doctor behind the scenes was really aiming at. My readers will understand what the real aim was if they recall Prof. Jevon's explanation of the meaning of this operation that I have already given earlier. They will understand that it was once more only a step towards Reverse Bills in a different form, and it was Jevon's second method that was being attempted. We shall now consider Jevon's third method of contracting the supplies of currency in order to push up Exchange, and I shall try to show to what extent this has been also put into practice.

JEVON'S THIRD METHOD.

Sales of Securities in the Reserves. There were two kinds of securities in the Reserve *viz.*, Sterling securities and Rupee securities. The former were British Treasury Bills, and so there was no need to actually sell them. At suitable moments the proceeds of such Bills as matured could be passed on to the Secretary of State. But in the case of the Indian securities, the same procedure could not be followed. I have already referred in an earlier article to the ad hoc "created" securities. As explained at the time, they were really like the empty cases that the warehouseman had put into the godown to conceal the disappearance of the goods that had been made away with by his employee. These ad hoc securities were similar make-believes to replace the sterling Reserves that had disappeared. Our Currency manipulators, no doubt, felt that this make-believe could not last long, and must be found out one day and that it was necessary to get these ad hoc Bills out of the way as soon as possible. The right way would have been to replace these ad hoc securities *i.e.*, these pieces of paper by *real* Reserves of gold silver or sterling as soon as means permitted. Provision was made for it in the Indian Paper Currency Amendment Act of 1920, Section 13 (3) of that Act provided as follows :—

"As long as the value of securities created by the Government of India and issued to the Controller and deemed in accordance with the provision of Clause 2 of this Section to be securities purchased by the Governor-General-in-Council exceeds 120 millions of rupees all interest derived from the securities on the Reserve shall with effect from the 1st day of April 1921 be applied in reduction of such excess holding of securities."

As Government of India had not received any value for these ad hoc Bills and so would not ordinarily have had to find any interest on them, the above Clause really amounted to this that *an amount equal to the interest on such Bills was to be raised by taxation to make good the Reserves that had disappeared as a result of the disastrous mistakes of 1920.*

If the Government or the experts whom Government was blindly following had been really penitent and had really given up the policy of which these disastrous Reverse Bills sales formed an essential part, they would have used this Clause to provide money with which real and substantial metal or sterling backing could be substituted for the above ad hoc Bills. But they had not really repented, and not really given up their policy of forcing exchange up. They had only bent to the storm of public protests and given up any overt action that could be perceived by the public and raise further storms. But they were not to be thwarted. Their policy of deflation was to be persisted in, till it had achieved the object they had in view. Therefore, although they could have used the moneys available from interest or securities to lay in substantial reserves of silver or of sterling, they did nothing of the sort. Instead they used the money so made available to cancel off more Notes and to further contract the circulation. My readers will note that the clause only and expressly calls for the reduction of the created securities. It does not say that they could not be replaced by securities of the right kind or by metal. It does not say that the corresponding Notes must be cancelled. But the authorities read the Clause in the sense that best suited them, *viz.*, for further deflation.

Accordingly a good deal of deflation was carried through on the lines of what we may call Jevon's method No. 3. In March 1922 however there were great difficulties in balancing the Budget without serious additional taxation, and on 22nd March 1922 Government accepted an Amendment to the Finance Bill moved by Sir Montagu Webb suspending the operation of Section 13 (3) of the Paper Currency Act that has been quoted above. Consequently this third method of deflation has remained in abeyance, but that it is only in abeyance for the sake of balancing the Budget and that the policy of deflation has not been given up is abundantly clear from the other measures Government have taken so far.

CHAPTER VI.

THE REAL SIGNIFICANCE OF THE CONTINUED EXISTENCE OF THE 2sh. RATIO IN THE STATUTES.

To all those who have carefully followed what I have said in Chapter V, it will, I hope, be clear how exchange can be pushed up artificially and what the various steps in this process are. I have indicated these steps on the authority of Prof. Jevons, not because they are any new discoveries of his, but because we shall then be less open to the charge so assiduously put forward by apologists of the Government that the criticism of their Exchange and Currency policy arises from political motives. This, translated into plain English, means that it is not honest criticism. It is on this account that we have to follow Prof. Jevons step by step, because he at least would not be charged with setting up arguments arising from political motives to hamper the present Government.

We shall now examine one by one the changes in our Currency Reserves during the past five years and at each step see whether it was an application of Jevon's first, second or third method.

Before entering upon this examination, it is necessary to bear in mind that in currency operations as in other things, there may be sins of commission and also sins of omission, and that the latter may sometimes be a far greater sin, and may inflict a far more serious injury on the victim.

A GREAT SIN OF OMISSION.

There is one such most serious sin of omission, in the present attitude of Government. This is the refusal to make further issues of currency against tender of gold possible. This is the most potent instrument used by the Government to force Exchange up, but as the layman cannot see that the authorities are actually *doing* anything, he is easily beguiled into believing that there is no manipulation. The following analogy will make my meaning clearer.

AN ANALOGY WITH IRRIGATION.

Circulation of currency is to the fields of trades and industry as the circulation of water is to the fields under cultivation. The supply of currency is as vitally necessary to the one as the supply of water to the other. If the supply of Currency becomes insufficient, trade and industry wither away quite as surely as crops wither away when the water to irrigate them is insufficient.

Suppose I have land under cultivation that is being irrigated from a neighbouring stream. A powerful neighbour builds a weir (or dam) across the channel leading to my land where it passes over his land and shuts out the water from coming to my above land. My crops wither. I complain. He answers ' Don't bother me. I have not even touched your crops." I point out that the weir he has built shuts out water from my fields, and that this weir must go. He coolly replies " I am not going to touch the weir. I am not interfering with *your* land or *your* crops. Don't blame me if your crops wither. It must be your fault if they do." I point out that the existence of this weir makes the water overflow in other directions and makes it flow on to waste land, while if it was allowed to flow to my land, it would enable me to get good crops. My neighbour only shrugs his shoulders and says he thinks the weir does no harm, and need not be disturbed.

This is, in a sort of way, what is happening with our Currency. There used to be in pre-war days a regular flow of supplies of Currency every year. It came in the shape of the surplus that remained from the proceeds of our exports *after* paying for all that was imported, including gold and silver for the Arts, and *after* remittances by Government to the Secretary of State and by non-Indian companies etc., to their own home offices or friends. This surplus came in as gold, and was paid into the Currency chest, and the currency officer gave Rupees in exchange, which went into Banks, and provided fresh supplies of capital for trade and industry.

THE CURRENCY WEIR.

In September 1920 Government built a weir across the channel by which alone could the supplies of fresh currency come in. This was the 2sh. ratio. It prevented Gold going into the Currency Office for exchange into rupees except at 10 to the Sovereign. Just as, after the weir was built and in place, my neighbour swore he did not even touch my crops, so in the case of Currency, Government, after putting up their weir (*i.e.*, putting the 2sh. rate on the Statute), swear they are not touching (manipulating) Exchange. Just as, when I pointed to my withered crops, I was told it was my fault, so again, when Indian industrialists point to their withering industries, Government say blandly it was all their fault. Again, just as, when I pointed out to my neighbour that on account of the weir the water was going on to waste land, he shrugged his shoulders and said it was no business of his, in the same way, when we point out to Government that the current of gold from abroad goes into unproductive hoards when it should go into productive channels *i. e.*, into Banks as Currency, the authorities only shrug their shoulders and turn away.

I hope my readers will now see that the putting of the 2sh. rate on the Statute was not "innocent and harmless." It was only as "innocent and harmless" as the dam put across the channel by my neighbour, in order to prevent water coming to my land. They will see that my neighbour *had no need to take any further steps* to ruin my crops, and that this one step was absolutely sufficient, and that he could now stand and whistle, being as sure as anything can be that his object would be achieved in due course.

This was what Government had done. This was why the Bills for the 2sh. rate were forced through in the very last sessions of the old Pre-Reform Councils. The experts behind the scenes knew that *once this big weir was in place, there was no need to do any-*

thing else. Time would do its work. Putting the 2sh. rate on the Statute Book was, therefore, one of the greatest sins of commission in the Exchange manipulations of the Government and the refusal to revert to the pre-war ratio is and continues to be their greatest sin of omission. To hark back to the analogy of the water, it was cruel mockery on the part of my powerful neighbour in reply to all my pleadings for water to say he was not doing anything. It is similarly mockery on the part of Government to tell us that they are not doing anything, the real fact being that the currency weir was built and in place, and there was nothing more needed. While the putting of the rate on the Statute was, like the building of that weir, a great sin of commission, the refusal to remove that weir is a great sin of omission. However, let us carry the metaphor further.

SOME ACTUAL SIN OF COMMISSION.

My powerful neighbour was not satisfied with building that weir. He found that I had a small lake on my own land in which water had collected from the previous rains. He saw that this supply which was already there might enable me to keep my crops alive. He, therefore, goes and gets his men to privately pump out water from that lake at night, so that my supply of water may dry up more rapidly.

PUMPING IN AND PUMPING OUT OF SUPPLIES.

Our Currency authorities have done something very similar. They saw that there was a certain amount of water (currency) already in the field, and that if their object was to be attained more promptly, this supply should be pumped out. And so they have been quietly pumping it out at night *i. e.*, in the slack season, time after time, as I shall show hereafter.

I shall first give the figures of the Reserves and the total Note Issues of the Currency Department at various dates starting from the 31st January 1920, as the Communique announcing the acceptance by the Secretary of State of the recommendations of the Babington Smith Committee was issued on the 2nd February 1920

FIRST STAGE OF MANIPULATION.

Date. 1920.			RESERVES. Total Metal.	Indian Securities.	English Securities.	Total Note Issue.
31st January	...	...	87·05	15·60	82·50	185·15
29th February	...	...	84·93	15·60	82·50	183·03
22nd March	...	...	84·15	15·60	79·27	179·02
31st March	...	...	87·65	19·59	67·28	174·52
30th April	...	...	85·70	23·77	61·27	170·74
15th May	...	...	85·23	24·91	59·77	169 91
22nd May	...	...	85·19	28·33	53·77	167·29
31st May	...	...	84·97	31·18	50·77	166·92
7th June	...	...	86·32	35·54	44·77	166·63
30th June	...	...	91·52	35·54	37·27	164·33
7th July	...	...	91·42	37·80	32·77	161·99
22nd July	...	...	94·22	40·62	28·28	163·12
7th August	...	...	93·68	45·08	23·77	162·53
22nd August	...	...	93·13	47·33	21·53	161·99
7th September	...	...	93·88	48·09	19·28	161·25
30th September	...	...	94·21	47·14	16·27	157·62

The above Table brings us down to the end of the *first stage* of the manipulations of currency. The Currency weir was constructed and put in place (*i. e.*, the 2sh. rate was put into the Coinage and Currency Acts) during September 1920, and the revaluation of the Reserves came into effect from 1st October, so it will be convenient to take count of what had happened so far.

It will be noticed that the Reserves contained 82·50 crores of Sterling securities at the beginning *i. e.*, on 31st January 1920. This was equal to

£ 55 Million

Then the sales of Reverse Bills at disastrous rates were begun. Instead of Rs. 15 for every £ 1, Government accepted as low as

Rs. 8 to Rs. 7. The balance on 30th September is given as Rs. 16·27 crores, which at 15 to the £ is equal to only

£ 10·85 Million

so that it will be seen that £44 million had gone. Assuming that the Bills realised an average of Rs. $7\frac{1}{2}$, these sales of £44 million could have brought in only Rs. 33 crores, whereas it stood in the Reserves as the equivalent of 44 × 15 or Rs. 66 crores. There would thus be a gap of some Rs. 33 crores more or less to fill up.

On turning to the Indian securities, we find that they were only Rs. 15·60 crores in the beginning, but had grown to 47·14 crores at the end. This meant that Rs. 31·54 crores worth of securities had to be "created" to fill the gap spoken of above.

There was enormous manipulation in other ways also such as selling Post Office Money Orders on Great Britain at fancy rates and sales of Gold also at fanciful rates, and there had been further losses on these accounts, which were passed off on the public as deficits in the Budget, but I do not wish to go into details of these here, as it is not necessary for the object we have immediately in view. I will, however, point out in passing that the amount of metal (gold and silver) in the Reserves had also grown from 87·05 crores on 30th January to 94·21 crores on 30th September. Normally this return of metal would have meant an addition to the Notes in issue of 7·16 crores, but this increase in the metal reserves seems also to have been utilized to cover the gap caused by Reverse Bills, so that the total gap would appear to be the total of the increases in both the metal and the Indian securities in the Reserves *viz.*, 31·54 plus 7·16 or 38·70 crores.

We shall now pass on to the second stage, *viz.*, the period after revaluation of the Reserves at 10 to the Sovereign.

THE SECOND STAGE OF MANIPULATION.

We have already noted the changes in the figures of the Currency Department from 31st January 1920 to 30th September 1920 when with the putting of the 2sh. ratio on the Statute Book the first stage of the new policy was accomplished. The authorities could than have safely stood aside, and confidently waited and watched the slow but sure effects of this currency weir that they had put up. They knew that between 1894 and 1900 the same thing—*viz.*, the closing of the Mint and preventing fresh supplies of Currency from going into the money market—had sufficed to dry up the supplies previously existing and pushed Exchange up by some 3½d. in less than 5 years. Therefore, as I say above, they could safely have waited and watched events. But this was evidently too slow a process for them, and it was decided to force the pace by pumping out the supplies already in existence, by what I have called Jevon's 3 methods. Let us now continue our examination of the figures of the Currency Department from 30th September 1920, and see what story they have to tell us of Government policy. In the following table I have repeated the position of 30th September 1920, which was the last item in the previous table, as my new starting point. In that table I had lumped all metal, whether gold or silver, together as one item, and showed it to be 94·21 crores on 30th September 1920. This consisted of 58·06 crores silver and 36·15 crores gold. In the present table I am obliged to show the gold and the silver separately as manipulations of the gold part of it will also have to be carefully traced.

RESERVES.

Date 1920.	Silver.	Gold.	Securities in India.	Securities in Eng.	Total Note Issue.
30th Sep.	58·06	36·15	47·14	16·27	157·62.

N. B.—In above the gold and securities in England had been valued @ 15 to the £ and so must have been respectively £ 24·10 and £ 10·85 millions worth respectively. For the next Statement they had to be revalued @ 10 to the £, and should consequently figure as 24·10 crores and 10·85 crores. Therefore revalued we have

1920 30th Sep.	58·06	24·10	47·14 / 17·47	10·85	157·62.

N. B.—The further 17·47 of Indian Securities separately shown above has had to be created to fill up the gap in the reserves as before.

7th Oct.	58·17	23·89	67·13	8·35	157·54

N. B.—Again Reverse Bills through Secretary of State—Jevons No. 1.

15th Oct.	58·35	23·76	68·07	8·35	158·53.

(no manipulation till we come to)

1921					
7th Aug.	74·65	24·35	66·90	8·35	174·25.

N. B.—The reduction of about 1 crore in Indian securities was, no doubt, utilization of the interest earned on securities for deflation purposes *i. e.*, it was Jevons No. 3.

30th Sept.	78·76	24·34	66·92	8·35	178·37.

This completes the second stage of the manipulations. During these 12 months *i. e.*, from 30th September 1920 to 30th September 1921 further artificial deflation was stopped except for reduction of sterling in the first week and application of the interest. This was because, as we all know, a very severe trade crisis had started about the end of 1920, and dealers found it impossible to move and pay for goods that they had been tempted to import at absurdly high rates by the promise of a 2sh. Exchange. Import-houses and banks consequently found themselves involved in great difficulties, and the experts behind the scenes were probably afraid to push matters further just then, as it would bring about greater monetary stringency. Or, perhaps, it was the executive officers here that refused to follow these men behind the scenes, and to accentuate a crisis already severe enough. I am inclined to suspect the latter as the real reason why further deflation was postponed, because do we not find Prof. Jevons telling us that Sir Malcolm Hailey appeared to be seized with undue alarm at the possible results of deflation? Evidently this worthy Professor was echoing the chagrin of the coterie behind the scenes that was egging on the authorities here to these most disastrous measures. Evidently Sir Malcolm Hailey must have refused to follow them any further for the time being. Undue alarm indeed! God only knows what would have happened —what widespread commercial insolvencies we might have seen— if this coterie had had its way. Indian trade and industry have reason to be thankful to Sir Malcolm Hailey for the firm stand he then evidently took up.

By September 1921 the worst of this trade crisis had been got over, people had become familiar with losses, and very few understood that it was these currency manipulations that had made the position as bad as it was. A new harvest was in sight, and people's thoughts were preoccupied with plans for recouping the past losses by fresh trade. It was, therefore, considered a convenient moment to start manipulations afresh. I shall call it the 3rd stage, and will now give the weekly figures with Notes where necessary.

THE THIRD STAGE.

RESERVES.

Date. 1921.	Silver.	Gold.	Securities in India.	Securities in Eng.	Total Note Issue.
30th Sep.	78·76	24·34	66·92	8·35	178·37
31st Oct.	79·97	24·34	67·05	8·35	179·71
7th Nov.	79·24	24·34	67·05	7·85	178·48
15th Nov.	79·02	24·34	67·05	6·35	176·76

N. B.—Here we have once more a deflation of 2 crores through English Securities. This was Reverse Bills through the Secretary of State *i.e.*, Jevons No. 1.

30th Nov.	78·41	24·32	64·40	6·35	173·48

N. B.—Application of interest on securities *i.e.*, Jevons No. 3.

22nd Decr.	74·65	24·32	68·40	5·85	173·22

N. B.—Further application of Jevons No. 1. There is an increase in Indian securities here of Rs. 4 crores, but the figure on 31st July was 68·05 crores, so this was a reversal to the July position necessitated by the want of sufficient Treasury balances.

31st Dec.	73·96	24·32	68·40	5·85	172·53
1922					
7th Jan.	73·50	24·32	69·40	5·85	173·07

N. B.—1 Crore increase in Indian securities due to Treasury necessities.

15th Feb.	75·35	24·32	67·42	5·85	172·94
7th Mar.	76·32	24·32	66·44	5·85	172·93
31st Mar.	77·51	24·32	{ 65·08 2·00E.	5·85	174·76

N. B.—Application of interest to deflation started again. Jevons No. 3. E indicates Emergency Currency.

(No manipulation hereafter till the usual loan was floated and out of the way).

15th Aug.	86·27	24·32	65·21	5·85	181·65

(From this onwards there was deflation week by week through Indian securities *i. e.*, Jevon's No. 3).

15th Nov.	90·61	24·32	57·42	5·85	178·20

N. B.—There was thus a deflation through Indian securities of as much as 12 crores in 12 months.

(There is no further manipulation probably in order that the busy season and the Loan may both be safely out of the way. So we come without manipulation to—)

1923.					
15th July	87·26	24·32	57·51	5·85	174·94
22nd ,,	88·19	2·432	57·51	4·85	174·87
31st ,,	90·04	24·32	57·51	3·85	175·72
7th Aug.	90·66	24·32	57·51	2·85	175·34
15th ,,	91·87	21·32	57·51	1·85	175·55
22nd ,,	93·07	21·32	57·51	·85	175·75
31st ,,	94·45	24·32	57·52	Nil.	176·29

N. B.—Again Jevon's No. 1 *i. e.*, Reverse Bills sold to the Secretary of State, week by week till the whole of the sterling Reserves had gone.

This brings us to the end of the third stage. Readers will see that while Government claim that they were not doing anything to push Exchange up, the facts are otherwise. They will see that *not only was the weir (the 2sh. ratio) kept up in order to prevent the flowing in of further supplies of Currency, but an active policy of pumping out existing supplies was consistently followed.* They will now see that Government had been consistently using all through 1922 and 1923 the methods of deflation (*i.e.*, pumping out) advocated by Prof. Jevons, to push Exchange up. If the authorities here did not know and did not understand that these measures of deflation meant directly pushing Exchange up, then all I can say is that it is their and our misfortune. But this does not any whit alter the fact that they did take certain measures, which must perforce and inevitably push Exchange up, and did push it up.

How they have allowed themselves through their ignorance of the whole subject to be treated like wax in the hands of the experts behind the scenes will be seen even more clearly when we come to the next stage.

THE FOURTH STAGE.

Use of Other Methods of Rapid Deflation.

We have so far examined the manipulations of our Currency Reserves upto 31st August 1923 at which date I have put the end of the 3rd stage, because it was at this point that the Sterling Reserves had been entirely exhausted.

This was the one method by which, apart from application of interest, deflation had been carried on without the man-in-the-street perceiving what was being done. If we recall the methods propounded by Jevons, we shall see that the other methods of deflation now available would have been

selling of the gold
selling of the silver
reduction of the Indian securities.

The last method required the finding of so many crores from Revenues, and so could not be very freely used without upsetting the Budget. The manipulators, therefore, contented themselves for the time being with such deflation as the application of interest on the securities made possible. They then evidently cast about for other methods of rapid deflation. To sell the silver would have provoked inconvenient questions. To sell gold outright would also have recalled to the public the disastrous operations of 1920 in which free sales of gold to depress its price and artificially bring its value down to a parity with the 2sh. ratio was an important feature. They, therefore, came forward with the wonderful proposal to make profits by selling the gold in the Reserves and replacing it by Sterling. Ostensibly not deflation, but the profit India was to make out of it, was put forward as the objective. But their real object is not difficult to guess for all those who have carefully followed these articles. This object was to first change all the gold into sterling and then use the fresh supply of sterling for deflation in the same way as the £ 8·35 million had been used even after the stoppage of public sales of Reverse Bills. These operations were in direct contradiction of the pledge given by the Finance Member in the last Assembly on 24th January 1922 that Government would not again sell Reverse Councils without first coming to the House. The Finance Member who gave this pledge must have honestly meant what he said. He unfortunately did not understand that the men behind the scenes were really making him sell Reverse Bills when he was asked to deflate by paying out Sterling to the Secretary of State. However, let us now look into the Currency Reserve figures at the 4th stage. The 3rd closed on 31st August 1923, so we shall start with that.

THE FOURTH STAGE OF MANIPULATION.

RESERVES.

1923. Date.	Silver.	Gold.	Securities in India.	Securities in England.	Total Note Issue.
31st Aug.	94·45	24·32	57·52	Nil.	176·29
31st Oct.	99·02	24·32	57·48	Nil.	180·82
15th Nov.	97·74	22·32	57·48	2·00	179·54

(£ 2 million of gold sold and £ 2 million of Sterling substituted *i. e.*, Jevons No. 2 in a mixed form).

30th Nov.	95·49	22·32	57·48	3·00	178·29
7th Dec.	93·39	22·32	57·48	9·00	182·19

(Here we have further Sterling Securities. The supplies of money had become so scarce that Government was compelled to buy Sterling in India and issue fresh Currency against it. I shall have to say more about it below).

22nd Dec.	87·61	22·32	57·48 4·00 E	9·00	180·41
31st Dec.	86·61	22·32	57·48 8·00 E	9·00	183·41
1924.					
7th Jan.	85·17	22·32	57·48 8·00 E	14·00	186·97
15th Feb.	80·58	22·32	57·53 12·00 E	14 00	186·43

(In the above, the items marked E. are Emergency Currency and as 12 crores was issued, nothing more was permissible this way. The figures under Sterling securities are further Currency issued against deposit of sterling *i. e.*, pumping in of supplies to prevent a too rapid collapse of the money market.

1924					
7th April	79·60	22·32	57·53 10·00 E	14·00	183·45
22nd May	76·29	22·32	57·53 8·00 E	14·00	178·14
7th June	76·57	22·32	57·53 4·00 E	14·00	174·42
30th June	78·64	22·32	57·53 0·00 E	14·00	172·49

(All Emergency Currency now withdrawn.)
(No change to 30th September.)

30th Sept.	85·62	22 32	57·31	14·00	179·25

At this point I consider that we come to the end of the 4th stage. It was remarkable for the extraordinary pinch felt in the money market.

EXTRAORDINARY TIGHTNESS IN THE MONEY MARKET.

Bank Rate at 9 per cent.

So great was it that all the 12 crores of Emergency Currency was issued by the 15th February and 12 crores more had to be provided by deposit of sterling against issues of Currency. Even these 24 crores did not suffice as is clear from the fact that Bank Rate had to be kept at the unprecedented level of 9 per cent. from 14th February to 10th April. The authorities were so keen on keeping the rate of Exchange up that they obstinately refused to either take down their Currency weir or to provide the necessary supplies of Currency by sales of sterling at best current rates, which was the only alternative to an automatic supply against gold. Instead they permitted the Bank Rate to go to 9 per cent. Every merchant and Banker will appreciate what every 1 per cent. rise in Bank Rate means to the producer. It is he that ultimately pays this interest charge and not the merchant, because the merchant knows how to allow for all such charges in the price he offers for produce. When the position led to bitter complaints from the commercial community, they were put off with talk of high Bank Rates in the busy season being of frequent occurrence, and there being, therefore, nothing surprising in what had happened. The authorities tried to also appease public opinion by promising a reconsideration of the regulations for the issue of Emergency Currency. However this argument that the stringency that was being felt in the last two years is of the same nature as the stringency felt in pre-war days is altogether misleading. It once more shows a want of grasp of the real facts of the situation on the part of the Currency authorities, as I hope to demonstrate later on.

It will suffice for the moment to point out that the additional supplies of currency provided during this period—August 1923 to September 1924—did not mean any change in the policy of forcing up exchange by depleting the supplies of Currency. It only indicates that the men behind the scenes had learned wisdom from the happenings of 1920, and wanted to carry through their programme in such a way that it might pass unnoticed by the lay public. Therefore, we continually find great emphasis placed on this monetary stringency being seasonal (which it really was not) and on the great solicitude Government always had for relieving it in the interests of trade and industry.

Those who have closely followed these articles will remember the example of the water that my powerful neighbour had shut off from my land. He had as we know

1. built a weir to prevent the flow of new water to my land
2. had started secret pumping operations to take away what little water there already was on my land.

He found that the rapid drying up of my crops was creating a scandal in the neighbourhood. He then comes forward with an apparently magnanimous gesture. He still declines to take down the weir and allow the water to flow freely to my land. Instead he gets his men to pump water into my land to save my crop. He allows only as much water as will just keep my crops alive and he means all the time to pump it out again as soon as things had quietened down.

The currency authorities did something exactly similar. They would not take down the currency weir and permit supplies to flow in in a natural manner. Instead of it they started pumping in some supplies but only the barest minimum, and they coolly proposed to pump it out again at a convenient moment and once more start the pushing up of Exchange, on the lines of Jevon's methods already described. This pumping out on the lines of Jevon's method No. 1—*i. e.*, Reverse Bills sold to the Secretary of State—was foreshadowed in the speech of the Finance Member in introducing the Budget for 1924-25 on the 29th February 1924. In para 60 of that speech he says.

"During the summer we drew £ 5·85 million from the "Paper Currency Reserve against payment into the Reserve "in India. On the other hand, in order to take advantage of "the more attractive rates at which Sterling has been obtain-"able during the winter months and at the same time to do "something to mitigate stringency in the money market, we "have remitted no less than 12 crores to London against "issues of Paper Currency in India. We shall start the year "1924-25 with £ 14 million in Sterling securities in the Paper "Currency Reserves, all of which we can, if necessary, apply "towards meeting our sterling outgoings. But if conditions are "at all similar in the winter of 1924-25 to those which prevailed "this year we may have to replace some of the amounts so "applied during the summer in order to meet the requirements "of the Indian Money Market in the winter. We have, there-"fore, assumed a net draft on these Sterling Reserves of £ 10 "Million."

The above translated in terms of the flow of water means that

1. £ 5·85 million was pumped out first.
2. £ 12 million had then to be pumped in again.
3. The above £ 12 million, with the £ 2 million already there in exchange for gold that had been sold, made a total £ 14 million available for fresh pumping operations.
4. If any of this £ 14 million is pumped out and this dries up the money market too much, some pumping in might be again necessary.
5. As a tentative programme it was proposed to pump out £ 10 million in the summer (of 1924.)

If our Legislators had a close grasp of the problems of Currency this para would have roused them to far stronger action than any increase or reduction of the Salt tax, because this constant mani-pulation of Currency—this constant pumping out and pumping in of supplies at the sweet will of the authorities—deprives the masses of more than ten times the additional tax they might have to pay on salt through the raising of the Exchange, and the depreciation of the values of all produce that it entails.

It is true that many of our legislators are not experts in Currency matters, but most of them have a good knowledge of problems of cultivation. I would, therefore, put it this way to them. Would they agree to some powerful neighbour continually interfering with the supplies of water to their fields at his own sweet will and pleasure? Would they agree to leave the fate of their crops to the mercy of such neighbour? Would they not put up the strongest possible fight for the free and unfettered flow of water to which they were entitled? It is really this problem in a nut-shell that they have to consider. The water, *viz.*, the Gold, is there in the shape of surplus proceeds of our exports. This water could have flowed unfettered into the money markets of India but for the wrong-headed legislation of 1920, as it did in pre-war days. The authorities put up that weir in 1920 in the shape of the 2sh. ratio and thus forcibly diverted the flow of all this money from the money markets of India into barren hoards. Let our legislators consider how a cultivator would feel in a parallel case and then let them say whether they should tolerate such a state of things any longer.

CHAPTER VII.

In the last Chapter we came to the end of what I shall call the 4th stage of currency manipulations with 30th September 1924. We also saw what the programme of the Finance Member was about pumping out supplies of Currency and pumping them in when needed. Let us now trace the changes in the Reserves from 30th September 1924 to say 28th February 1925 which I shall call the 5th and last stage.

Date 1924.	Silver.	Gold.	Securities in India.	Securities in England.	Total Note Issue.
30th Sep.	85.62	22·32	57·31	14·00	179·25
31st Oct.	86·53	22·32	57·12	15·00	180·97
15th Nov.	85·43	22·32	57·12	16·00	180·87
7th Dec.	83·30	22·32	57·12	17·00	180·24
31st Dec.	80·76	22·32	57·12 2·00 E	17·00	179·20
1925.					
7th Jan.	80·15	22·32	57·12 2·00 E	20·00	181·59
22nd Jan.	78·45	22·32	57·12 4·00 E	20·00	181·89
7th Feb.	76·56	22·32	57·12 6·00 E	20·00	182·00
22nd Feb.	75·58	22·32	57·12 8·00 E	20·00	183·02
22nd March	76·28	22·32	57·12 8.00 E	20·00	183·72

(E Means Emergency Currency.)

It will be seen from the above that the Authorities had to give up their idea of reducing the supplies of Currency by 10 crores by payment to the Secretary of State of £ 10 million (*i.e.*, Jevons method No. 1) as had been originally intended and foreshadowed in the Finance Members speech introducing the Budget of 1924-25. On the contrary the position was found to be so stringent that they were compelled to provide *additional* supplies of 8 crores from the Emergency issue and 6 crores by issue of currency against deposit of sterling. The experience of the past two seasons should have shown the authorities that further manipulation to curtail supplies of currency and push up Exchange through such curtailment was at least inadvisable, but there is not the slightest change either in their methods or in official pronouncements that would indicate that they had learned the lessons of this two years' experience.

How short the market was of the necessary supplies of currency and how serious the position was considered to be, not only by the Indian commercial community but even by the European Commercial community, can be better appreciated from a very strongly worded representation made to the Government by the Bengal Chamber of Commerce. In a letter addressed to the Finance Department and dated 16th July 1924 the Committee of this Chamber referred to the very high Bank Rate and the very low percentages of the Cash Balances of the Imperial Bank of India. They then went on to say that the Rate had to be raised to such high levels in order to secure the only available supplies of additional currency through the Emergency Currency provisions of the Paper Currency Act. They further emphasised the fact that the Rate had to be kept at 8 per cent. for an abnormally long period, because of the difficulty experienced by Government in withdrawing the additional Currency from circulation.

The Bengal Chamber then go on to explain that the system of an Emergency supply, which had been provided for by Section 20 of the Indian Paper Currency Act had been designed to meet the seasonal demand for Currency, that it enabled the seasonal demand to be supplied as occasion arose, and that the additional currency was withdrawn from circulation as the busy period came to an end, and the Committee of the Bengal Chamber was of opinion that this provision was probably *adequate for the purpose in view.*

They then go on to point out that the real explanation of the great tension in the money market and the high Bank Rate lay in a different direction, that "there was no provision for a permanent or at least a quasi permanent expansion as distinguished from the seasonal increase," and that in their opinion it was in this that the real weakness of the position lay. They then lay it down as are indisputable proposition that

> "every progressive country required a steady increase
> "year by year in its supply of currency and that it was this
> "effective demand which could not under the existing system
> "be met, that had brought about the present situation."

The Committee then go on to explain why this demand could not be met. They point out that

> "with the fixing of the Standard @ 2sh. the importation
> "of gold or sovereigns for exchange at the Currency Office
> "into Notes had ceased to be a practicable proposition;
> "nor does the sale to-day of Council Bills ordinarily result in
> "an increase of currency, the Reserve Treasuries not being
> "now in existence, and that consequently it merely involves a
> "transfer of funds from Public Deposits to other Deposits in
> "the Imperial Bank."

They then sum up the position by saying that it meant that

> "all the various arrangements whereby the supply of
> "Currency was in the past automatically increased have now
> "ceased to function."

I have quoted the opinion of the Bengal Chamber at this length in order to once more rebut the charge of political motives which is made in order to prejudice the issue whenever Government's currency policy is being attacked. Calcutta is the stronghold of European Commercial and Financial interests in this country, and the Bengal Chamber is a body representing these interests. They had been the staunchest supporters of Government's misguided currency policy, because, as non-Indians with remittances to send out of India, every individual of this community stood to benefit by a screwing up of the rate of Exchange. Even they had to speak out and the above quotations from their representations to Government make it abundantly clear that the real source of the trouble was the continued existence of the 2sh. rate on the Statute Book, and that all talk of the great monetary stringency being seasonal was mere eye-wash.

One thing is certain namely that were it not for Government freely coming out to buy sterling at 1sh. 6d., we could easily have seen Sterling Exchange at a much higher level this season. It was this free buying of Sterling that kept the Exchange pegged at the 1sh. 6d. level. We may well ask whether it means a new orientation of our Currency policy. In any case, we have good reason to be thankful to whoever was responsible for preventing Exchange from rising above 18d. But until we have some definite pronouncement of policy, there is, from the experiences of the past 5 years, only too much reason for apprehension that the men behind the scenes who are really directing the Currency policy of the Government might only be trying what in military parlance is called a feint. In other words, they might be trying to lull Indian opinion into a false security that further manipulation had been stopped, and might only be waiting for the next most favourable opportunity to start operations again, and raise Exchange another 2d. to the neighbourhood of 20d. The commercial community will, therefore, have to be extremely watchful during the next 12 months. Those of them who have carefully followed these articles will have seen that the machinery of manipulation is already there. We have

1. The Currency weir preventing gold from being sent to the Currency Office for conversion into local currency.

2. Sterling in the Currency Reserve which can be paid out to the Secretary of State as soon as it is considered desirable to start manipulations.

3. Gold in the Currency Reserve which could be first converted into sterling and then paid out as in 2.

4. Indian securities which also could be reduced if deflation is desired that way.

In the case of this last, a plausible reason will be put forward, *viz.*, that the interest on the Reserves had been diverted to Revenue for several years and that consequently these securities had not been reduced as they ought to have been and that there was a good deal of leeway to be made up. I am afraid this seemingly very praiseworthy resolve of Government to reduce "created" securities or reduce debt will be innocently applauded by many a layman who will fail to see that it was merely a device to further curtail the supplies of Currency and force Exchange up still further. It is, therefore, necessary not only to be extremely watchful, but also not to innocently swallow the plausible explanations that will be put forward about making profits for India or about reducing India's unproductive debt etc., etc., as they have been in the past, but to look deeper and see what the real objective of the operation was.

It is also necessary to emphasise that even if none of the second, third and fourth methods mentioned above is put into practice the first—the Currency weir—is by itself sufficient to force Exchange up slowly but surely. If we hark back to the case of the land from which my powerful neighbour had cut of supplies of water, we shall easily see that whatever supplies were already on my land, were bound to get dried up in time. In the same way the supplies of Currency already in existence are bound to get absorbed in time and lead to great stringency and ultimately force Exchange further up as had happened in 1898-99. *Therefore even a plain undertaking by Government that they will not use the second, third or fourth methods here mentioned (i. e., that they will not pump out existing supplies) is useless unless and until the currency weir is taken down and supplies are permitted to flow* *in automatically once more.* If any one asks at what rate this is to be done—at what rate gold should be made exchangeable for rupees—I would unhesitatingly say it should be at 7·53 grns. of gold to each rupee or 15 rupees to each sovereign. Any other ratio would, as I have already explained, be a fraud.

I have now come to the conclusion of my examination of the methods used by Government to force Exchange up during the last 5 years and trust this little *brochure* will help our public men both in and out of the Legislative Assembly and the Council of State to more intelligently follow the various manipulations of Currency by Government, to appreciate the true bearings of each step in such manipulation, and to see that if this cannot be prevented under the form of Government as now constituted and administered it should at least not pass unchallenged.

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