HISTORY

OF

Indian Currency & Exchange

BY

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TO

THE MORRIS COLLEGE STUDENT

THIS BOOK

IS DEDICATED.

PREFACE

This book on the *History of Indian Currency and Exchange* has been specially written with the object of meeting the requirements of students preparing for the *B.A. and B. Com. examinations* of Indian Universities. It, therefore, presupposes the knowledge of the general principles of Currency and Exchange. The plan adopted of treating the subject is very simple and is designed to elucidate the different phases of the Indian Currency System. Its chief aim is not to stuff the students' minds with facts and figures, but to create in them a genuine taste which would lead them to a methodical study of the chaotic history of Indian Currency.

My debt to various authorities on the subject and to the Blue books mentioned in the Bibliography cannot but be acknowledged by me. In the case of the latter, which form the real basis of the work, their original language has been adhered to, wherever necessary, to indicate the source of information.

I am indebted to my colleague, Professor A. C. Sen Gupta, M.A., I.E.S., for his very valuable suggestions, and to Professors Chordia and Ghose for the help they gave in correcting the proof-sheets.

Despite its imperfections, it is sincerely hoped that the book will prove useful to students and form the foundation for further study.

Morris College,
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B. E. D.

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Book I

CHAPTER I.

Currency History before 1835.

(Two Standard coins of different metals.)

Currency before 1800.

At the beginning of the 19th century no uniform standard coin existed in British India. In Northern India, *a silver standard* existed with gold coins in concurrent circulation, but there was *never any fixed legal ratio between them*. The Muhommaden rulers on the whole preferred silver coinage. In *Southern India*, on the contrary, where the Muhommaden conquests never extended, the *Hindu* rulers adopted *gold* as the standard.

Thus, throughout India *two standard coins* of both gold and silver were in circulation side by side *without any fixed relation* between them. The exchange value of the coins was determined by their weight and fineness.

The East India Company "found 994 different kinds of gold and silver coins current of *different weights and fineness*, and whose value was constantly varying from day to day. No one could tell the value of the coins he might hold. In making even moderate payments the parties were obliged to call in a shroff—a professional money changer—to declare the value of each coin."*

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*H. D. Macleod, Indian Currency, p. 13.

Early efforts of the East India Company.

Finding this extremely embarrassing for revenue collection and business transactions, the East India Company attempted to issue both gold and silver coins *at a fixed legal ratio*. This establishment of Bimetallism, however, ended in a failure as the legal ratio could not possibly be maintained while the market value of the metals was constantly fluctuating.

But with the appearance in 1806 of Lord Liverpool's treatise on the *Coins of the Realm*, the importance of the principle of Monometallism was made clear and the Governor-General in Council declared his entire adherence to it. But the choice of the Government fell on *silver* as the standard.

Despatch of 1806.

The Court of Directors of the East India Company addressed a despatch on 25th April, 1806, to the Governments of Bengal and Madras in which they expressed themselves fully in favour of monometallism, and as regards the establishment of a standard they wrote that " they were fully satisfied with the propriety of the *silver rupee being the principal measure of value* and the money of account." But they did not desire to drive gold out of circulation, and they even proposed that a gold-rupee of the same weight and fineness as the silver coin should be coined without a ratio being fixed between the two coins.

The silver coin in Madras Presidency, 1818.

No action was taken on this minute until 1818, when the Government issued a new coinage of silver and gold. *They substituted the silver rupee for the gold pagoda as the standard coin of the Madras Presi-*

dency, where gold coins had been the standard currency for thousands of years. The rupee weighed 1 tola or 180 grains. But they declared these gold and silver coins to be equally legal tender. Thus in spite of the minute of 1806 " they persevered in the *vain attempt to maintain Bimetallism.*"*

However, the various Presidencies under the East India Company had rupees of different weights and fineness and the rupee of one Presidency was not legal tender in another. Great inconvenience, therefore, arose in making payments, and in actual payment they were weighed as bullion. A uniform system of coinage was, therefore, found necessary.

Act of 1835; the silver Rupee made legal tender.

Such a uniformity was obtained by the Act of 1835.

The essentials of the Act were as follows :—

(1) The Silver Rupee of the weight of 180 grains troy, (150 grains pure metal and 15 of alloy or 11/12th fine) was declared to be the *standard coin and legal tender in India* and the silver coins were to be of proportionate weight.

(2) It also enacted that "*no gold coin* shall henceforward be *a legal tender* of payment in any of the territories of the East India Company".

(3) But it also authorised the coining of gold mohurs (15-rupee pieces) which were of the same weight and fineness as the rupee, and 5, 10 and 30 rupee pieces of the same standard as the gold mohur.

Conclusion.

Thus silver monometallism was established in India, and although gold had ceased to be legal tender in India as between private individuals, the provision regarding the coining of the gold mohur meant that the authorities did not entirely discourage the use of gold by the people.

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*H. D. Macleod, Indian Currency.

CHAPTER II.

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1835–1893.

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Importance of the period 1835–1893.

This period of the history of India Currency is very instructive both from the economical and academical points of view. For, in the first place, a change in the value of precious metals, silver and gold, brought with it great difficulties in maintaining the stability of the rupee ; and secondly, to come out of these difficulties successfully various experiments were suggested and tried (one of which was already the favourite of a certain part of Europe then). We have, therefore, to trace the causes of the difficulties, and to see whether they were remedial or not, and then try to measure the value of the experiments made. Both these difficulties and the efforts made to overcome them, are important for study in the light of future history.

PART I.—The period 1835-1874.

(Demonetization of gold.)

(A) Events between 1835-1870.

(*i*) Demonetization of gold.

(*ii*) Attempts at introduction of gold.

Proclamation of 1841. Extension of the use of gold.

We saw in the preceding chapter that the Act of 1835 made the silver-rupee the standard coin for India. But the people continued to demand the use of gold coins and a proclamation had, therefore, to be issued on 13th January, 1841, which authorised officers in charge of public treasuries "freely to receive gold Mohurs at the rates, until further orders, respectively denoted by the denomination of the pieces." As the gold Mohur and the silver rupee were of identical weight and fineness, this proclamation represented a ratio of 15:1 between gold and silver. In this way the use of the gold as currency was extended.

(i) Lord Dalhousie demonetized gold currency. 1853.

But the extensive discoveries of gold in Australia in 1848 and 1849 caused the value of gold to fall relatively to silver. It was, therefore, held by the Directors of the Company, on representations from the Government of India, that the proclamation of 1841 had embarrassed the Government and was likely to do so still more. The reason given was that "holders of gold coin have naturally availed themselves of the opportunity of obtaining from the Government treasuries a larger price in silver than they could obtain in the market".* People were eagerly paying for their debt to the Government in Gold, the depreciated metal, and what they gained the Government lost. Consequently a notification was issued on 25th December, 1852, by which the above provision of 1841 was withdrawn and it was declared that, on or after 1st January, 1853, "*no gold coin will be received* on account of payments due, or in any way to be made, to the Government in any public treasury within the territories of the East India Company."

By this notification gold was completely demonetized in India, and it was estimated that "£120,000,000 worth of gold coin at once disappeared from circulation and became hoarded wealth".†

*Quoted from Fowler Committee Report, para 5.

†H. D. Macleod, Indian Currency.

Fall in the price of precious metals.

We have just referred to the fall in the value of gold. We shall now try to know its extent and its consequences. For many centuries the market ratio of exchange between gold and silver was 15 tolas of silver : 1 tola of gold. Any change therefore in the relative values of these metals was bound to bring about a change in the mint ratio of these metals. And this was what actually happened during that period, although not so acutely as in the succeeding one. New rich gold fields were discovered in California and Australia and in 1851 the world's production of gold began to increase. This led to a fall in the price of gold, and silver became relatively the dearer metal.

If, however, the fall in the value of gold had been heavy, relatively to silver, the intrinsic value of the Rupee would have risen appreciably and therefore its exchange value would have been raised accordingly.

But this occasion did not arise because, (1) the stock of silver in the world's market began to increase as a consequence of the play of Gresham's Law in France. This country was then bimetallic and the cheaper gold coins drove out the dearer silver coins from currency.

(2) Secondly, from 1865 the production of silver in the world also began to increase.

Thus, the *increase in the supply of silver tended to compensate for the increase in the supply of gold* and the latter did not depreciate much and the change in the ratio was slight.

(ii) Attempt to introduce gold currency into India.

During the whole of this period we find a keen agitation by the people for the introduction of a gold currency. Efforts on the part of the Government of India were made to extend the use of gold coins. Every Finance Member favoured the introduction of a gold currency. In 1864 the Chambers of Commerce of the three Presidencies memorialised the Government of India for a gold currency.

(I) Scheme of 1864.

Sir Charles Trevelyan, the Finance Member, drew up an exhaustive scheme in favour of it in 1864, but it was not accepted by the then Secretary of State, Sir Charles Wood. It was, however, thought that an experiment might be tried to see if the people of India would be willing to use gold coins and it was declared by the Government of India in November, 1864, that

(*a*) Sovereigns and half-sovereigns minted at any authorised Royal mint in England or Australia should be accepted by the Government of India in payment by its debtors, as the equivalent of Rs. 10 and Rs. 5 respectively.

(*b*) the Government of India should, when convenient, pay the same to its creditors if they desired to receive them in payment. Even notes were also authorised to be issued under limitations in exchange for such gold coins.

(II) Scheme of the Mansfield Commission.

But such a half-hearted attempt to introduce the use of gold currency was not likely to encourage its use into general circulation. The agitation, however, went on and in 1866 a commission* was appointed to report on the best expedient to satisfy the currency demands of the increasing commerce and prosperity of the country.

*The President of this Commission was Sir William Mansfield.

The recommendations of the Commission were as follows:—

(1) that gold coin† of 15, 10 and 5 rupees respectively would find more favour in the eyes of the people than notes of like value;

(2) that the introduction of gold would facilitate the establishment of the currency notes;

(3) and that the opinion was almost unanimous that the currency should consist of gold, silver and paper.

In the end they expressed a hope that, with such evidence of the general wish of the country before them, the Government of India would persevere in recommending to the Secretary of State the making of gold coin legal tender in India.

The attempts end in failure.

No substantial result, however, came out of these recommendations and the experiment of the limited introduction of gold into circulation was carried on. In 1868 the rate for receipt of sovereigns and half-sovereigns was raised from Rs. 10 and Rs. 5 to Rs. 10-8 and Rs. 5-4 respectively (as the rate was sometimes below the average market value of the sovereign).

Act of 1870.

In 1870 the Indian Coinage Act was passed which consolidated and amended all previous legislation.

(B) 1870-1874, (Gold not legal tender.)

Beginnings of a fall in the value of silver.

Nothing eventful occurred during the first two years of this period, but the coming in of the year 1872 brought with it a distinct change in the relative values of gold and silver. What were the causes that brought about this change ?

†The Commission modified the units because they proved that the rupee price of the sovereign was not correctly determined by the proposal of 1864. The real par of the sovereign was somewhat above Rs. 10.

Germany had decided in 1871 to adopt the gold standard and abandon the silver standard.

She now began to import large quantities of gold and as a consequence threw out silver coin from the country. Her example was followed by Denmark, Sweden, Norway and Holland. Consequently the stock of silver coins in the market increased considerably.

But this was not all. Other countries *viz.* France, Belgium, Italy and Switzerland, that had joined together into a *Bimetallic Union*, known as the Latin Monetary Union, began to find it difficult to keep up the fixed Bimetallic Standard, because silver began to take the place of gold in these countries. They, therefore, suspended the free coinage of silver in 1874 (and silver coin in fact became a token coin.)

These two events brought with them the beginning of a fall in the price of silver.

Gold not legal standard.

When these great changes were taking place in Europe, yet another attempt was made to obtain for India a gold currency. In 1872, Sir Richard Temple, the Finance Member, put before the Government of India a scheme for making gold coin legal tender in India. But India was not destined to have this privilege. *By the middle of 1874, the Government of India definitely decided against the recognition of gold as a legal standard of value in India.*

PART II.—The Period 1874–1893.

(Falling and unstable exchange.)

Section (A) 1874–1878.

Rapid fall in the price of silver—Its causes.

We have just stated above the causes which made the beginnings of a fall in the price of silver. But this fall became very rapid from 1874 and did not stop for nearly 20 years. There were many causes which combined to bring about this rapid fall. For the sake of convenience, we shall divide them into two parts.

(i) *Those on the side of silver.*

(ii) *Those on the side of gold.*

(i) Factors affecting silver.

Looking to the *demand* side for silver we find that if there was no great reduction in its use by Europe and America during these years at least the fact remained that these countries did not want more silver than before. It may be granted then that the demand remained nearly the same as before.

But the supply of silver increased considerably and the factors which led to this were the following:—

(*a*) As stated above most European countries adopted the gold standard and as a consequence large quantities of silver coins went to the market.

(*b*) and *new* silver was being steadily produced in larger and larger quantities. Not only were new mines discovered but new inventions simplified the process* of producing silver. This will be seen from the following table:—

Average annual production of silver.	Ounces.
1876 to 1880	78,776,000
1881 to 1885	90,435,000
1886 to 1890	111,213,000
1890	133,237,000
1891	144,453,000

Thus in 1891 the production of silver from the mines was far greater than in any preceding year.

(ii) Factors. affecting gold. At the same time gold was appreciating in value—

(*a*) In the first place there was an increased demand for gold currency in Europe and America to meet the requirements of the increase in trade.

(*b*) and in the second place the production of gold in the world declined.

Conclusions:—These, therefore, combined to bring about a fall in the general level of gold prices. And the conclusion that when all gold prices fell, ***the price of silver as a commodity also fell in terms of gold***, is important.

*H. Stanley Jevons: *Money, Banking and Exchange in India.*

Its Consequences for India.— This rapid fall in the price of silver also affected India.

(1) The first natural consequence was *a fall in the rate of exchange.* The table shows clearly how closely related are the price of silver and the rate of exchange.

Year.	Price of Siver.	Rate of Exchange.	
	d.	*S.*	*d.*
1871–72	$60\frac{1}{2}$	1	$11\frac{1}{8}$
1875–76	$56\frac{3}{4}$	1	$9\frac{5}{8}$
1879–80	$51\frac{1}{2}$	1	8
1883–84	$50\frac{1}{2}$	1	$7\frac{1}{2}$
1887–88	$44\frac{5}{8}$	1	$4\frac{7}{8}$
1890–91	$47\frac{11}{16}$	1	$6\frac{1}{8}$
1891–92	45	1	$4\frac{3}{4}$
1892–93	*39*	*1*	*3*

(2) Besides, the effect on the general level of prices in India was quite contrary to those in Europe and America. The cheap silver was imported into

India in large quantities to liquidate her favourable balance of trade. It may be recalled that silver coin was unlimited legal tender in India at this time. And when this silver entered into circulation as money, the total currency in circulation exceeded what was actually needed and it resulted in a *rise in the general level of prices.*

Year.	Prices.
1873	100
1883	99
1884	107
1885	106
1886	103
1887	104
1888	111
1889	117
1890	117
1891	120
1892	134
1893	129

(3) The depreciation of the rupee brought the Government of India in great financial difficulties. The Government had yearly to remit a very large sum to England in discharge of their gold obligations known as the "Home Charges." At a rate of exchange of, say, *2s.*, to remit every £1 to England would mean paying Rs. 10, *plus* the cost of sending it; but, at 1*s.* 3*d.* to remit £1 would mean paying nearly Rs. 16 *plus* the cost of sending it. The great loss arising from this operation *converted a surplus Budget into a deficit Budget.* The Total loss estimated was great as compared with the revenues of these years. We shall consider it when we analyse the report of the Herschell Committee (in Section C).

Section B. (The Remedies) 1878-1892.

The continuous fall in the gold price of silver and in the rate of exchange resulted in great uncertainties in commerce and trade. If the future of prices and the rate of exchange could not be foreseen with certainty by businessmen, it would be very difficult for them to know their profits and therefore contracts would be curtailed.

Proposals for a gold currency.

We therefore find that during these four years agitation was started by men and institutions connected with commerce in favour of the closing of the Indian Mints to the free coinage of silver and for the adoption of a gold standard. The economic motive behind this suggestion is very important for the student of Economics and we shall deal with it in Section C.

(a) Col. Smith's Scheme.

A scheme for the adoption of a gold currency was prepared by Colonel J. T. Smith who was Master of the Mint at

Madras. He suggested

(*a*) that the free coinage of silver should be suspended but that the silver rupee should continue to be legal tender;

(*b*) that gold bullion should be received by the Government at the mint rate of Rs. 38–14–0 per standard ounce, and coined into sovereigns and half-sovereigns (equal to Rs. 10 and Rs. 5 respectively) which should with rupees be declared legal tender *but not demandable*;

(*c*) that the Secretary of state should sell bills in England to such an amount from time to time that ultimately the rate would rise to 2*s*. And when this was attained gold would flow into India for coinage, and gold coins would be made demandable and silver coins would lose their value as an instrument for payments.

The objects of the Scheme.

It was not intended that India should have a double standard; for, as soon as the free coinage of silver was stopped, it would put a limit to its coinage, and the rupee would have a token value outside India. Whereas in Bimetallism the great requirement is that there should be unlimited free coinage of both metals.

But a change to the gold standard would be made *gradually* without causing any sudden disturbance in the prices of commodities measured in silver or gold. And as gold would be attracted to India in the course of a few years there would be sufficient gold for the introduction of a gold currency in the country.

Besides, by artificially limiting the future supply of silver coins, the rupee would be given a monopoly value; that is, it would appreciate in terms of commodities.

(*b*) Scheme of the Government of India.

Even in the year 1878, aiming at the ultimate adoption of the British standard, and the extension to India of the use of

British gold coins, the Government of India represented that

(a) they should be given the power to receive British and British Indian gold coin in payment for any demands of the Government at rates to be fixed from time to time until the exchange had settled itself sufficiently to enable them to fix it permanently at 2s.;

(b) simultaneously with this, the seignorage on the coinage of silver would be raised to such a rate as would virtually make the cost of a rupee, to persons importing bullion, equal in amount to the value given to the rupee in comparison with the gold coins above spoken of.

The result of these suggestions would be that a "self-acting system would be obtained under which silver would be admitted for coinage at a fixed gold rate as the wants of the country required; while a certain limited scope would be given for the introduction and use of gold coin, so far as it was found convenient or profitable."

The fate of the proposals.

These proposals were referred by the Secretary of State to a Committee who unanimously reported *against* them. Their verdict was accepted by the Secretary of State, who in writing to Government of India stated, "Of one thing my Lords are sure, that it is better to sit still, than to have recourse, under the influence of panic, to crude legislation the result of which cannot be foretold and the effect of which cannot be measured."

(c) Attempts at International Bimetallism.

When such attempts failed, the Government of India tried to seek relief in an *international agreement*, which might cause a rise in the gold price of silver and thus diminish the disastrous consequences resulting from the continuance of the silver standard.

It is important to note at this stage that between 1867-1892, *four great International Monetary Conferences* were held to solve the currency difficulties of various countries of Europe and America.

The First Conference.

The *first* Conference was held at Paris in 1867, which was attended by the representatives of 18 principal countries of Europe and the United States of America. Every country at this time was aiming at securing gold for its currency in sufficient quantity and at the cheapest price possible. "It was a scramble for gold." It was not, therefore, strange that at this Conference it was resolved that "the relation between the value of gold and silver should not be established at a rate too low to permit the serious introduction of gold", particularly in countries having the silver standard. At the same time gold was declared to be the only standard suited to international money.

The decision of this conference gave a clear hint that it would not be possible to have a gold currency easily established in India.

The Second Conference; August, 1878.

A few months before the second conference met in August, 1878, the United States of America made a strenuous effort in the direction of Bimetallism in the country by passing what is known as the *Bland Allison Act*. By this act silver which was dethroned as money in 1873, was to be restored as a legal tender money, and to do this the Secretary of the Treasury was required to purchase and coin each month not less than 2 million dollars and not more than 4 million worth of silver into *standard* silver dollars. The purchases were made but they were not sufficient to raise the price of silver, which continued to fall.

Hence the United States of America took the lead in convening this conference and in proposing the adoption of a common ratio between gold and silver for the purpose of establishing internationally the use of bimetallic money, and securing fixity of relative value between those two metals.

But the proposals were *not* accepted by the conference because *the interest of the gold-using countries would not allow gold to be introduced as currency by silver-using countries.* To the increasing demand for gold would be added the new demand from silver using countries; the price of gold would, therefore, sore high, and would embarrass the gold-using countries.

But the faith of the Government of India in Bimetallism was not lost and in December, 1897, they expressed the opinion

(*a*) that the bimetallic standard was the best system of currency;

(*b*) that it could be obtained by an international agreement between France, Germany, United States and India;

(*c*) and that the ratio between gold and silver should be 1 : 15½.

Thus India was to obtain "unquestionable and quite incalculable financial benefit."

The third Conference; July 1881.

The *third* conference met in July, 1881, and this time at the instance of France and the United States of America. The proposals were the same as before, of introducing International Bimetallism. 19 countries joined the conference but England sent her delegates on the clear understanding that she was opposed to Bimetallism, and that they were sent there not to vote but to give every information the conference required. Two such delegates represented the Government of India, "but it was understood that the Government of India were not committed to the principle of bimetallic system in India."

The proposals of the French and American Governments for a double standard of value did not meet with the approval of the conference, and it failed in its object of establishing International Bimetallism.

At the same time the difficulties of the Government of India began to increase as the price of silver continued to fall, and in 1886 they wrote to the Secretary of State that the difficulties could be solved by an International agreement. But the proposal was negatived.

The gold and silver commission.

In 1886 a Royal Commission known as the Gold and Silver Commission was appointed in England to enquire into the recent changes in the relative values of the precious metals, owing to the decrease in the gold price of silver. The Commission gave its report in 1888. Half the members wrote against Bimetallism on the ground that the change proposed was tremendous and that the public mind was not prepared for it. Of the other half, who wrote in favour of Bimetallism, was Sir David Barbour who represented India. But owing to this divided verdict no action was taken on the report.

The Sherman Act.

In 1890 the United States seemed to come to the help of the silver-using countries indirectly. They passed the Sherman Act which required the Government to buy annually no less than 54 million ounces of silver. The purchases amounted to 35 to 43 per cent. of the world's production. This quantity represented nearly three times that brought under the Bland Allison Act of 1878. This artificial demand for silver undoubtedly tended to raise the price of silver and brought with it rash speculation on the part of traders and "trade between India and England became nothing short of a gamble in exchange", with all its attendant evils. But the rise in price of silver turned out to be of temporary duration, and on the contrary the *price began to fall very rapidly*, and was expected to fall to a lower level in the future.

Yet another effort.

The Government of India, therefore, made yet another effort in 1892 to induce the British Government to settle the silver question by an International agreement. They made out a strong case for such a step being taken, because should an international agreement fail, the United States of America might be forced to repeal the Sherman Act and the consequences of their action would be disastrous on the price of silver.

The Fourth Conference; June, 1892.

In June, 1892, the President of the United States of America invited other countries at a conference at Brussels to settle the silver question at this time not by the weapon of Bimetallism but to settle "what measures, if any, can be taken to *increase the use of silver* in the currency system of nations". Although the purpose for which the conference was called was different from those of its predecessors, it failed to find any definite and practical scheme upon which a large number of the delegates could agree. At the same time the representatives of the United States declared that their Government might be disinclined to continue their purchases of silver *i.e.* the Sherman Act might be repealed, and that they were determined to protect their stock of gold.

Despatch of the Government of India of June, 1892.

The same month in which the Brussels conference met, the Government of India wrote a despatch in which they emphasized that, if the Brussels conference would fail, two steps should be taken:

(1) that the Indian Mints should be closed to the free coinage of silver;

(2) and that arrangements should be made for the introduction of *a gold standard*. (The details of the scheme proposed and the reasons on which they were based have been discussed by the Herschell Committee to which they were referred. We, therefore, defer their consideration to the report of this Committee.)

Section C. (1892-1893.)

The Herschell Committee's Report.

The question before the Committee.

The question referred to the Committee was whether, having regard to the grave difficulties with which the Government of India were confronted through the heavy fall in gold value of silver, it would be expedient to allow the Government to carry into effect the proposals which they had made for stopping the free coinage of silver, with a view to the introduction of a gold standard.

The main divisions of the Report.

It would conduce to clearness if the Report is studied in the following four parts.

(i) The first part reviews the present and future situation of the Government of India as regards their revenue and expenditure and shows the extent of their financial difficulties.

(ii) The second part estimates the effect of a varying and possibly much lower exchange upon the commerce and people of India.

(iii) The third part analyses the proposals of the Government of India and examines certain objections raised to them. An appeal is also made to the policy of other nations in establishing fixity of exchange with gold-using countries.

(iv) The fourth part deals with the modifications of the proposals of the Government of India, states the recommendations of the Committee and the reasons for the conclusions arrived at.

(I) Financial difficulties of the Government of India.

(A) The key to the whole situation was to be found in the fact that the Government of India had to make remittances annually from India to England to the extent of nearly £17 millions sterling and the fall in the value of silver, and with it the rupee, meant that more and more rupees were required to remit every £ than before. The following table shows clearly the extent of the loss incurred.

Year.	Amount remitted in £	At rate of exchange.		Rupee cost of remittance.
		s.	d.	Rs.
1892–93	16,532,215	1	2·985	26,47,84,150
1873–74	to remit the same amount.	1	10·351	14,26,57,000

(B) And this additional sacrifice had converted a surplus budget into a deficit budget in spite of improvement in revenue, and as the whole revenue of India in 1892-93 was only Rs. 90 crores, the loss of that sum was really very serious in those days.

(C) Nor was this all. A further fall in the price of silver was contemplated. "A review of the changes in the price and production of silver which have characterised the last 12 years certainly forbids our entertaining any confidence that, if a further heavy fall in the price of silver were to take place, it would be, at any point capable of estimation, checked or counteracted by diminished production. It cannot be regarded, then, as otherwise than within the reasonable bounds of possibility, that a repeal of the Sherman Act might lead to a fall in the price of silver of even 6*d*. per ounce, or more, and that there might be no substantial reduction from the level thus reached. Such a fall would, it may be said with practical certainty, reduce the exchange to about 1*s*. 0*d*, per rupee, and involve the necessity of raising at least Rs. 6,612,000 more than would be required by the Government of India to effect, even at the rate of exchange of 1*s*. 3*d*. per rupee, a remittance of the amount drawn last year (1892–93)."*

(D) The means available for making up the deficit was either increase of taxation or curtailment of public expenditure. But was any of these possible ?

(1) First, as to the possibility of increasing taxation—after passing in review the means of taxation which had been in use then, the Commission considered the new sources of taxation which were suggested to them, but they came to the conclusion that the additional revenue could be got "only in a manner opposed to sound principles of taxation."

(2) Next, on the possibility of reducing expenditure, they wrote, "Although, therefore, we feel strongly the necessity for the utmost care in restricting expenditure, we are certainly not in a position to conclude that any economies are possible which would enable the Indian Government to meet successfully the great and growing deficit caused by falling exchange."

(II) Effect of fall in exchange on the people of India and its commerce.

The Commission tried to prove that the burden upon the people of India as a whole had *not been increased* by the fall in exchange. The arguments in support of their statement were given as follows :—

*Herschell Committee Report.

(*a*) Effect on remittance of produce.

"In estimating the effect upon the people of India of its being necessary to raise an increased number of rupees to meet the sterling remittances of the Government of that country, it must be borne in mind that the extent of the burden imposed upon the people of India by their remittances is measured by the *quantity of produce which they represent*, for it is by the *export of produce that the debt is in reality discharged.* In so far as the necessity of exporting more produce arises from the circumstance that gold prices are lower, the people of India are in the same position as those of Australia or any other country which has to export produce for the purpose of paying the interest on its gold debt. The question to be considered is what effect has the fall in exchange upon the amount of produce which must be exported to meet a given gold liability? To determine this, the gold price of the produce must be assumed to be stationary. When silver falls in relation to gold, the greater number of rupees which is required to meet a given gold payment will *not* represent a greater quantity of produce than before, *if the silver price in India of the produce exported responds to the changed value of silver in relation* to gold, *i.e.*, if *it has risen* or has been prevented from falling. Silver prices must ultimately thus respond, although an interval may elapse before the correspondence is complete; and during this time, whilst more produce is exported, the

Indian ryot is getting proportionately less in silver for his produce."

(b) Transfer of burdens from one class to another.

But there was no doubt that the burden had been to some extent shifted from one class to another. (1) The burden of those who pay a fixed land revenue under a permanent settlement had been lightened; (2) but on the contrary, the increased salt tax would press upon the people at large, and would render more heavy the taxation of those who have suffered rather than benefited from the higher rupee price due to the fall in the gold value of silver.

(c) Harassment of trade by fluctuations.

It was indeed commonly agreed that trade was seriously harassed by fluctuations. Any sudden or violent fluctuation almost paralysed business for a time. It was however observed by the Committee that it was not so much the fall of exchange which was complained of, as the fluctuations, whether in one direction or another. Some of those who admitted the mischief to trade of exchange fluctuation alleged that the extent of the mischief was not serious, since provision could be largely made against the effect of those fluctuations through the medium of banks; but it was clear that traders could not completely safeguard themselves in this way and such security as they obtained in this respect must be paid for.

Upon the whole the Committee said "it cannot be doubted that it would be well if commerce were free from the inconveniences of fluctuations which arise from a change in the relation between the standard of value in India and in countries with which her commerce is transacted."

(d) Alleged stimulation of exports.

It was said that the tendency of a falling exchange was to stimulate exports; that, in as much as more silver, *i. e.*, a higher silver price was received in respect of the same gold price, whilst wages and other factors in the cost of production did not increase in the same proportion, production became very profitable, and was, therefore, stimulated.

"Assuming this to be true", said the Committee, "the effect of each successive fall must be transitory, as can continue only until circumstances have brought about the necessary adjustment." Even assuming the proposition that a falling exchange stimulated export was true, the examination of the statistics of exported produce did not afford any substantial support to it. On the contrary, statistics proved that export trade had been less with a rapidly falling than with a steady exchange. For example, from 1871-72 to 1876-77, the gold value of the rupee fell 11¼ per cent., but exports were actually less in the latter year than in the former, and imports increased by 17 per cent.

(e) Check to investments in India.

It was alleged that "the want of a stable exchange between England and India, and the fact that it has fallen so heavily, has greatly checked the investment of British Capital in India and the consequent development of the country."

But the Committee wrote, "Indeed, uncertainty as to the interest which would be received for the investment, and as to the diminution which the invested capital might suffer if it were desired to retransfer it to this country, tends to check British investments in India. This is a real evil. But this check is due to other causes which are more substantial. Capitalists have been slow to invest in many kinds of industrial enterprise, owing to the fact that prices are falling, or have fallen, very generally. Besides, London is the lending market and London thinks in gold. London is ready enough to lend upon contracts for repayment in gold, but hesitates to enter upon silver transactions, or to engage in industrial enterprises in a silver country."

(f) India made to buy depreciating silver.

It was said that, by making silver the standard, and keeping the Indian mints open to silver, "the Anglo-Indian Government have attracted to India that depreciating metal, and have thus made India purchase, at a comparatively higher cost, an enormous quantity of it, which is now of less value than when it was brought."

To this the Committee answered, "In this there is some truth, but also much exaggeration. It is only when and so far as the opening the mints to silver has led to the importation and coinage or hoarding of useless and now depreciating silver, that the free coinage of silver can be considered to have inflicted a loss upon India. What this loss amounts to cannot be determined, but we are not without indications that India is becoming *surfeited with silver.*"

(iii) Proposals of the Government of India considered.
Despatch of 21st June, 1892.

In a despatch of 21st June, 1892, the Government of India expressed their deliberate opinion that, if it became clear that the Brussels conference was unlikely to arrive at a satisfactory conclusion, and if a direct agreement between India and the United States were found to be unattainable, the Government of India should at once close the mints to the free coinage of silver and make arrangements for the introduction of *a gold standard* into India.

Sir David Barbour's plan for a gold standard.

Together with these proposals was also despatched a minute by Sir David Barbour, the Finance Member of Council, giving an outline of the method he proposed for the introduction of a gold standard into India. The nature of the plan was as follows :—

(1) The first measure would be the stoppage of the free coinage of silver. Government would retain the right of purchasing silver and coining it into rupees.

(2) The next measure would be to open the mints to the free coinage of gold. A man bringing gold to the mints would be entitled to have it coined into gold coins, which would be legal tender to any amount. It would be desirable to stop the free coinage of silver before opening the mints to the free coinage of gold. "It would be a reliable guide to us in subsequent proceedings to know exactly what effect the stoppage of the free coinage of silver had on the gold value of the Rupee."

(3) The new gold coins to be a 10-rupee piece and a 20-rupee piece.

(4) The weight and fineness of gold coins would be such that the par of exchange between them and the Sovereign would be the exchange which it was desired to establish between England and India.

For example, if the Rupee was to be worth 1*s*. 4*d*., the 10-rupee coin would contain as much gold as was worth (1*s* 4*d*.) ×10=160 pence. The quantity of fine gold in the 10-rupee piece would be 160/240ths or two-thirds of the quantity contained in the sovereign.

(5) The proposals as to the fixation of the ratio of exchange from the silver to the gold standard were as follows :—

(a) "We ought not to think of going back to the old ratio of 1 : 15½. Neither ought we to adopt the very lowest price to which silver may have fallen at any time."

(b) "A ratio based on the average price of silver during a limited period before the introduction of the gold standard would probably be both the safest and most equitable."

His arguments.

He gave the following reasons in support of his scheme, which are of interest to an economic student. He observed (1) that, although it was proposed to stop the free coinage of silver and to establish a gold standard, *it was no part of the plan to substitute gold for silver as the ordinary currency of the country.* It was contemplated that, in the vast majority of Indian transactions, *silver would still be used* as a medium of exchange. He referred to the example of France and other nations as showing that it was possible to have a gold standard, though a large percentage of the circulation consisted of overvalued silver coins, which were legal tender to any amount; (2) that, in order that the gold standard might be effective, *a limit must be placed* on the number of such silver coins, and they must be convertible into gold coins with or without the paying of a trifling premium. Gold coins would only be required in exchange for silver when they were wanted for hoarding or export or for melting down into ornaments; (3) that there was the possibility of no gold being brought to the mints to be coined and put into circulation or brought for a time and then discontinued. This would diminish the amount of gold coins required for circulation and enhance the value of gold coin and bring down the exchange value of the rupee, *i.e.*, rate would fall. This would mean that the rupee was redundant, or, in other words, that there were too many silver coins in circulation, and that the gold standard was not effectively maintained. The remedy in such a case would be to contract the rupee currency, and to adopt any feasible measures to improve the general financial position of the country. This then would be an effective weapon to control the rate of exchange.

Telegram of 22nd January 1893.

In a telegram of the 22nd January, 1893, the Government made this further statement regarding their proposals :—

(1) that English gold coinage shall be legal tender in India, at a rate of not less than 13 1/3 *rupees for one sovereign. i.e. the rate of 1s. 6 d.* per rupee;

(2) that power to admit sovereigns as legal tender might be of use as ad-interim measure and *need not be used except in case of necessity.*

Part I. Commission's consideration of these proposals.

Suppose the mints were closed in the first instance *without adopting a gold standard*, but coupled with the provision that the Indian Government should have the power of declaring English gold coins to be legal tender in India, at a rate of 1*s.* 6*d.* per rupee:

(a) *What would be its immediate effect on the gold value of uncoined silver to the coined rupee ?*

India's demand for silver.

Judging from the following figures it would be seen that India absorbed nearly the whole of silver imported into it.

1875-76 to 1892-93 : (*yearly average*).

Total demand of India for currency.	Net imports of silver.
	Rs.
Rs. 77,00,000 (and more)	83,28,344

Besides, the currency demands of India had during those years been nearly ¼, and those of the United States more than ⅓, of the whole world's production.

If, therefore, either the one or the other were to cease, there ought, according to general laws, to be a great fall in the value of silver, and if both were to cease the fall would be precipitous.

(1) Possible panic in silver market.

The closing of the Indian Mints would, no doubt, make it more likely that the United States would give up buying silver, and, if the apprehension of this were added to the cessation of the Indian demand, the effect might be a panic in the silver market. Ultimately, however, the price of silver would settle down to the new circumstances of demand and supply.

(2) Possible rise in value of gold.

If the effect of the proposal of the Indian Government were, sooner or later, to cause a demand for gold in India, which did not exist then, it might raise the value of gold as against all other things, including silver, *i.e.* the gold price of silver might be still further diminished.

(b) Its effect on value of coined rupees.

Next, as to the effect of simply closing the mints, on the future value of gold price of the rupee. If there were already, as there was reason to suppose, a quantity of unused rupees in India, they would have to be absorbed before the closing of the mints produced an effect on the value of the rupee. In that case, there might be some time to wait before there was any increase in its value. The apprehensions of men concerning the future might cause an immediate effect of a serious character, but they stated "we cannot venture to say for what length of time this would be maintained. Neither could we trace the progress of the enhancement of the value of the rupee, in respect of time or place, which we should expect to follow the closing of the mints."

Part II. Objections to the proposals considered.

Certain objections to the proposals of the Government of India were placed before the Committee. They discussed these objections at length and refuted them.

(A) That they were not practicable.

The first objection taken to the scheme was that it would not be practicable to maintain the rupee, in the manner suggested, on a ratio to gold much higher than that of the intrinsic value of the silver of which it consisted.

Methods adopted by other countries.

In order to refute this objection the Committee gave a survey of the different currency systems of different nations with a view to consider what light was derived from the currency arrangements of other countries. The lesson drawn from a study of these systems was that many countries had adopted the gold standard and a substantial parity of exchange with gold-using countries was maintained by them without *actually using gold or using very little of it in circulation.* The methods adopted to maintain the parity of exchange were under the following conditions :—

(a) With little or no gold, as in Scandinavia, Holland and Canada.

(b) Without a mint, or gold coinage, as in Canada and the Dutch East India.

(c) With a circulation consisting partly of gold, partly of overvalued and inconvertible silver, which was legal tender to an unlimited amount, as in France and other countries of the Latin Union, in the United States, and also in Germany, though there, the proportion of overvalued silver was more limited, the mints in all these countries being fully open to gold, but not to silver, and in some of them the silver coinage having ceased.

(d) With a system under which the banks part with gold freely for export, as in Holland, or refuse it for export, as in France.

(e) With mints closed against private coinage of both silver and gold, and with a currency of inconvertible paper, as had been temporarily the case in Austria.

(f) With a circulation based on gold, but consisting of token silver, which, however, was legal tender to an unlimited extent, as in the West Indies.

The Lesson for India.

The general conclusion drawn by the Committee was "that it had been found possible to introduce a gold standard *without a gold circulation* ; without a large stock of gold currency ; and even without legal convertibility of an existing silver currency into gold."

It was admitted by the Committee that what was true of other countries could not necessarily be true of India. Even in the case of Holland and its East Indian Colonies, which was *prima facie* very much in point, "there are differences which detract from its value as a precedent for India." The circumstances of each particular country must be studied ; yet, they stated, "the experience derived from the currencies of other countries is not without value as bearing on the questions we have to consider."

Nicholson* truly regretted that the Committee did not emphasise the fact that in every one of these cases the same general principle was exemplified,

* Nicholson : *Money and Monetary problems.*

the principle, namely, of *limitation*, first definitely established by Ricardo.—"Any kind of currency can be maintained at an artificial value, provided only that it is strictly limited."

(B) That it would be inexpedient to adopt them.

We turn now to consider the objections taken to those proposals even assuming that they would be effectual to maintain a stable exchange.

(a) *Supposing the ratio were not to be raised, and silver were to fall* :

(1) It was anticipated by some that a serious amount of spurious coinage would result. There was the danger of the illegal coinage of silver in India, in the native states or in foreign countries; for if such were put into circulation, it would be an extremely profitable enterprise.

But the Committee expressed their opinion that it was difficult to estimate precisely the real extent of the alleged danger, and that, as expensive and specially constructed machinery would be requisite to carry out such operations on an extended scale, they doubted whether the danger of India being flooded with large amount of spurious coins would really be a grave one.

(2) Next, the effect of closing the mints (on the assumption taken above) on the *hoards of silver* coined and uncoined in India itself was to be considered.

Coined rupees, of which the hoards chiefly consisted, would, they said, be unaffected, except in so far as any further fall in their gold value would be prevented; but *the coined silver and silver ornaments* would cease to be convertible into rupees, and would certainly be depreciated in value.

(3) Another objection raised was that the proposal would, if there should, in future, be a divergence between the value of the rupee and the market price of silver, have the effect of converting the whole of the currency of India into a *token currency* which would not differ in principle from an inconvertible paper currency.

But the Committee stated that one of the greatest risks connected with an inconvertible paper currency, *i. e.* the temptation which it afforded to the Government unduly to expand the amount in circulation, did not exist in the proposals of the Indian Government.

(4) It was also objected that placing power in the hands of the Government to expand or contract the currency at will, would *not make* the currency *automatic*.

But the Committee stated the assumption was that the exchange was not to be practically raised above the level which then existed. If, however, the rise in exchange were checked by the reception of gold, as suggested by the Government of India, the discretionary power vested in that Government would be confined within narrow limits, because if the rupee were to rise above the fixed ratio to such an extent as to cover the expenses of transmission and of coinage, it would become profitable to take gold to the Indian mint, or to send sovereigns to India, and thus the currency *would be made automatic on a gold basis.*

(5) Another serious objection urged was that, if the proposal of the Government were carried out, and there should arise a great *divergence* between the ratio borne to gold by the rupee and by silver respectively, it would *seriously affect the trade of India with silver-using countries*, and stimulate in those countries the production of commodities which compete with Indian commodities in the markets of the world and seriously affect India.

This argument will be discussed in parts:

(i) First as to the effects on the exports of India to silver-using countries: The most important country in this category was China which took from India a large quantity of manufactured commodities. It was contended that, if the divergence between silver and the rupee became considerable, the same silver price would mean a *lower rupee price.* This would mean a great loss to the Indian manufacturer, who could not so quickly diminish his rupee cost of production. Thus, trade would be less profitable and its volume would be diminished.

But the Committee stated that the Indian produce imported into China was paid for ultimately by goods exported by China to other countries, and that, if the gold price of these commodities did not fall owing to a fall in the gold value of silver, they would realise a higher silver price, and that China would thus be able to pay a higher price for the Indian imports.

(ii) It was further suggested that, if the fall of silver should continue to be considerable, it would afford a great inducement to *promote the* *manufacture* in China of cotton goods in substitution for those imported from India.

But the Committee stated that China was slow to move owing to impediments and burdens which were imposed upon that country's industrial enterprise.

(iii) It was further argued that, if a great divergence between silver and the rupee took place, India would *lose her trade* in competition with silver-using countries *in other markets*. Thus, if there was a great divergence between the value of silver and of the rupee, a considerably lower gold price would, in China, represent the same amount of silver as before, whilst to India it would give fewer rupees. The Chinese would be content to charge the same silver price as before, but the Indian producer must be satisfied with a lower rupee price, or perhaps be driven out of the market altogether through the stress of competition.

The Committee granted that in this case the Indian producer would suffer a great loss until *wages and other elements of cost of production had adjusted themselves to the new level of prices*, and that the interval must be considerable before such adjustment could be effected, for India's industrial institutions were but little developed. But they concluded that "consideration of the experience derived from the study of the history of Indian exports during the period characterized by a fall in the gold value of silver, leads us to doubt whether the suggested advantage is not so much less than those who urge the argument suppose."

(*b*) *Supposing the ratio were to be raised materially above the present level:*

The suggestion of the Government of India was that no ratio should be fixed immediately on the closing of the mints. Their proposal to take power to declare that English gold coinage shall be legal tender in India, at a rate of *not less than* $13\frac{1}{3}$ rupees to the sovereign, would, if acted upon, prevent the exchange from rising to any great extent above 1*s.* 6*d.*

But the Committee stated that all the objections which were considered in (a) were at least equally applicable in this case, but the answers were not of equal force.

The dangers of spurious coinage and of depreciation of Indian hoards *must increase* in proportion to the difference between the value of the rupee and the market value of silver.

Besides, trade difficulties due to a rising exchange, such as they were then, would, of course, be the greater the higher the ratio were taken.

Moreover, the difficulty of maintaining the inconvertible token coinage as full legal tender at a par value would tend to increase with the difference between the legal value of the token coin and the metal it contained; but the cases of foreign currencies quoted above showed that difficulties similar to those which were apprehended in the case of India had been successfully encountered.

(iv) Possible modifications of the proposals of the Government of India and Recommendations of the Committee.

If, then, there were admitted objections to the proposal of raising the exchange value of the rupee to 1*s.* 6*d.*, what was to be the fate of the proposals as a whole ? They were undoubtedly to be modified, but any modified scheme should be such as to remove the various risks and inconveniences that were likely to arise by the change.

The possible dangers to be avoided.

(1) In the first place, the cessation of free change would, in all probability, be immediately followed by *a fall in the price of that metal*. If at the same time exchange rose considerably, the divergence between the rupee and its intrinsic value would become at once marked, and the *difficulty of maintaining the rupee* at its higher exchange value might be increased and the apprehensions of disaster would be intensified.

(2) Moreover, the rise in exchange would be calculated *to lead to a fall in the price of Indian produce*. And, if this were seen to follow, and believed to be caused by the action of the Government, public opinion might be disturbed and the situation might become critical.

These, then, were the dangers to be avoided and the scheme should afford *security against any sudden and considerable rise of exchange.*

The remedy and its benefits.

But what was to be the remedy adopted ? It was to be provided that the mints should be closed to the public for the coinage of silver, but should be used by the Government for the coinage of rupees if required by the public in exchange for gold, at a ratio to be fixed in the first instance *not much above the one prevailing, say, 1s. 4d.* the rupee.

Such a measure would bring the following effects:

Any fear of considerable rise would thus be allayed, and any evil effects of such a rise would be prevented.

Moreover, even if silver fell, the divergence between the nominal and the intrinsic value of the rupee would not be so great as if exchange at the same time rose.

Besides, there would be these additional advantages.

(a) The currency would *not cease* to be automatic.

(b) It would be a less violent step than closing the mints altogether. They would practically remain open subject to certain conditions. It would be the smallest departure from the *status quo* that could accomplish the object.

(c) Moreover, it would still leave the volume of rupee coinage dependent on the wants of the people of India, and the fact that rupees might continue to be coined would tend to prevent silver falling as much as would be the case, if it were supposed that the coinage of rupees was to cease altogether.

The Recommendations of the Committee.

The Committee, *on these grounds*, therefore, made the following recommendations: (1) that the closing of the mints to the free coinage of silver should be accompanied by an announcement that though closed to the public, they would be used by Government for the coinage of rupees in *exchange for* gold at a ratio to be then fixed, say *1s. 4d. per rupee;* (2) and that at the Government treasuries *gold would be received* in satisfaction of public dues at the same ratio.

Conclusions.

The following results ensued from these recommendations :—

(*a*) The mints were to be closed to the free coinage of both *silver and gold*, because by Act of 1870 both silver and gold were received at the mints and coined, although gold coins were not declared legal tender.

(*b*) The rupee was made a *token coin*, since its exchange value was kept greater than its intrinsic value and a limit was put to its coinage.

(*c*) Besides, no specific provision was made for the introduction of gold standard, although it was contemplated to establish a gold standard in the future. They expressed the opinion that a *transition period was necessary* in which the rate of exchange would be brought upto 1s. 4*d*. When this was achieved a gold standard would be established. That no provision was made for future establishment of the gold standard was emphasized by Lord Farrer and Lord Welby, who wrote in a supplementary note, "A reserve (of gold) should, we contend, be provided before the Indian Government takes the final step of announcing gold as the standard, coupled with the correlative obligation to give gold for silver."

Fate of the experiment of closing the Mints to the free coinage of gold and silver.

CHAPTER III.

History during the years 1893–1900.

1893–1900.

Section I.	Section II.	Section III.	Section IV.
Act of 1893.	1893–95.	1895–1899.	*Report of Fowler Committee and Gold Currency for India.*
Closing the Mints to gold and silver.	*Continued fall of silver.* (The causes.)	*Raising the rate to 1s. 4d. by Contraction of Currency.*	

1993
1893

SECTION I—Closing the Mints to the Free Coinage of Silver and Gold.

The Coinage Act of 1893.

The recommendations of the Herschell Committee were accepted and Act VIII of 1893 was passed on 26th June of the same year by which the *mints were closed to the free coinage of both gold and silver*, Government retaining the right to coin silver rupees on its own account. Three notifications were also issued at the same time by which (1) gold coins and gold bullion were to be *received at the Mints* in exchange for rupees at the rate of 7·53344 grains troy of fine gold for one rupee, (*i. e.*, 1*s.* 4*d.* per rupee); (2) sovereigns and half-sovereigns were to be *received* in payment of sums due to Government at the equivalent of Rs. 15 and Rs. 7-8 as. respectively; (3) currency notes were to be issued in exchange for gold coin or bullion at the same rate.

Its inherent defects.

This legislation manifestly presented certain defects which may be called inherent.

Whilst the Government of India was bound to *receive gold* coins and gold bullion in exchange for rupees, it had *no obligation to give gold* in exchange for rupees. The obligation on the Government to coin silver rupees when the exchange was at 1*s.* 4*d.*, did not itself carry with it a corresponding obligation on the Government to give gold for rupees. This was its imperfection. Sir David Barbour himself held that, eventually, if the scheme were to be successful, *gold when required must be given for the rupee*, either with a premium or at a small premium. "It is of course obvious that a great country like India, if she undertakes a token currency, is under an obligation to maintain its value, and that she ought to discharge that obligation by making it reasonably certain that, where gold is needed in exchange for rupees, it will be possible to obtain it at a fixed ratio*". In short, without this corresponding obligation to give gold for rupees, it was questionable whether this gigantic token currency would be kept at par value for all times.

Suppose during a particular year the balance of trade became *unfavourable* to India owing to circumstances, such as a failure of monsoon. The exchange would, therefore, tend to fall. An unfavourable trade balance suggests that *more money is to be paid to foreign* countries than is to be received from them. In this case, therefore, the best method of keeping exchange at parity is to *give gold to*

*Lord Farrer and Lord Welby wrote in a supplementary note to the Report.

Indian debtors in exchange for rupees, to be exported to foreign countries. The result would be automatic; rupees would be reduced in quantity in circulation and the amount of gold in circulation would increase, *i. e. less rupees would exchange with more gold than before in circulation*, the exchange value of the rupee would thus tend to be kept up to the original level. Besides, this would be a natural course for correcting the exchanges.

But in the system such a natural course was not provided for. The absence of gold to be made available for debtors was the great weakness of this system.

SECTION II—**Continued Fall of Silver during 1893-95.**

The object aimed at by the closure of the mints was to give the rupee an artificially high value by making its supply scarcer relative to the demand for it.

But in the beginning circumstances were against such an artificial scarcity being created.

Causes of fall of silver.

In the first place, there was already a great volume of rupees in circulation and the increasing imports of silver into India, led, during the year 1893, to large issue of rupees from the Mints and the total amount of rupees was sufficient to meet the requirements of the next few years.*

Besides, on November 1st, 1893, America suspended the silver purchase clause of the Sherman Act,

*Findlay Shirras: *Indian Finance and Banking*, page 144.

and, as the artificial demand for silver was cut off, the price of silver fell in consequence, and "no less than 37 per cent. of the world's annual production was dumped on the market."

Then, during the months July 1893 to February 1894, in order to liquidate the favourable balance of trade, *heavy imports of silver* into India took place.

The rate fixed by the Act for the sale of Council Bills was 1*s.* 4*d.* per rupee. But at this time the Secretary of State sold the Bills at the market rate which was *much below 1s. 4d.* This led the people to believe that the Government could not raise the rate of exchange and caused great inconvenience. It was, therefore, decided by the Secretary of State that, to allay fears, the Bills would be sold at the minimum rate of 1*s.* 3¼*d.* per rupee, which was higher than the market rate then existing. The debtors in England would not, therefore, buy the Bills and preferred as an alternative to remit silver to India. This, then, led to a considerable import of silver.

All these causes combined together to bring about a fall in the rate of exchange. The following figures show the extent of the fall of silver and of exchange.

Year.	Intrinsic value of rupee as silver bullion.		Average exchange value of rupees.	
	s.	*d.*	*s.*	*d.*
1892	1	3¼	1	3¼
1893	1	1 5/8	1	3 1/8

Year.	Intrinsic value of rupee as silver bullion.		Average exchange value of rupees.	
	s.	d.	s.	d.
1894	0	11 1/8	1	1½
1895	0	11 3/8	1	1 3/8
1896	0	11 7/8	1	2½
1897	0	10½	1	3¼
1898	0	10 3/8	1	3 7/8
1899	0	10 7/8	1	4

(Taken from Jevons: *Money, Banking and Exchange in India.*)

SECTION III—Contraction of Currency and raising Exchange to 1s. 4d.

Why exchange continued to fall ?

We now reach the period during which the rate of exchange was steadily raised until it reached 1*s*. 4*d*., the prescribed limit, but as the figures in the above table show, it was not till 1899, that this was done. The relative scarcity of the supply of rupees, as compared to the demand for them, could not be clearly felt until 1899 and this was due to various circumstances.

The years 1896 to 1898 were bad years for India. The country was in the grip of famine and plague, and her production of food-stuffs and materials was reduced and with it their exports to foreign countries.

At the same time, the foreign demand for Indian products fell, as most European countries were experiencing a severe depression of trade. India could not, therefore, enjoy her usual favourable balance of trade.

Contraction of currency.

But with recovery in trade the exchange was raised to 1*s.* 4*d.* by the instrument of contraction of currency. That the volume of currency was contracted during this period is proved from the following facts :—

(1) In the first place, there was a decided *increase in the volume* of *business* at the same time the *active rupee circulation actually decreased.**

(2) Whether contraction of currency took place or not could also be evinced from the *discount rates* charged by banks to their customers. If the rate charged by banks for demand loans rises, it indicates that demand for money is greater than its supply, *i.e.*, stringency exists in the money market. Since the average discount rates of the Presidency Banks during 1898, rose to 8 per cent. as against 4 per cent. in 1893, it indicated that contraction of currency must have taken place.

*Mr. Findlay Shirras in his *Indian Finance and Banking* (pages 161–167) proves this conclusively. He shows that in 1900 (as compared with 1893), (1) at the same time that the volume of business increased 39 per cent. the volume of active circulation decreased by nearly 4 per cent. and (2) even if the total circulation of rupees, notes and cheques is considered, it shows an increase of about 21 per cent. as against the increase in business of 39 per cent.

(3) If the general level of prices fell, it would show that contraction of currency must have taken place, *i.e.*, if *less* rupees exchange with the *same* number of commodities or more commodities than before, the purchasing power of the rupee would be raised, or there would be a fall in the general level of prices. The Statistics of prices during this period indicate that contraction of currency must have taken place.

Year.	Index Number.
Average of 1868–76.	100
1893	125
1894	119
1895	116
1896	127
1897	149
1898	122
1899	117

(Taken from Wadia and Joshi: *Money and the Money Market of India.*)

Had the monsoon not failed during 1896 the fall in prices would have been continuous.

The Gold Note Act, 1898.

In 1898 an Act was passed to give elasticity to the currency. It authorised the issue at the same rate of *notes in India against gold deposited in London* with the Secretary of State and earmarked at the Bank of England as part of the Paper Currency Reserve.

SECTION IV—Report of the Fowler Committee.

Government of India's Despatch of March 1898.

We have seen above that the Government of India had to wait for five years before the exchange could be raised to 1*s.* 4*d.*, and when in the beginning of 1898 the rate seemed to reach the stipulated limit, they thought that it was desirable in *the interests of the State and of mercantile community*, which had suffered so long from evils of an unstable exchange, to *terminate the period of transition* without further delay. They, therefore, sent a despatch in March 1898 to the Secretary of State, details of which we shall presently consider. The Secretary of State appointed in April, 1898, a Committee presided over by *Sir Henry Fowler* to consider the proposals of the Government of India, and various schemes put forward by individuals, and to make their own recommendations for the establishment of a satisfactory system of currency in India. In July, 1898, the Committee gave its report. A study of their report will be made into convenient parts.

PART I—Consideration of the Indian Government's Proposals.

Proposals of the Government of India.

In their despatch of March 1898, the Government of India emphasized the importance of *terminating the period of transition* without delay. But in order to achieve this purpose, they proposed as follows :—

(*a*) The first step proposed was to take powers to *borrow* sums not exceeding £2 crores in England and to remit to India ¼ of this amount in sovereigns to form the first instalment of a *gold* reserve to be established for the future establishment of the gold standard.

(*b*) Then nearly Rs. *2·40 crores*, the estimated redundant amount, were to be withdrawn from circulation and were to be *melted down* to raise the gold value of the rupee.

(*c*) And the silver bullion obtained by melting down these rupees was to be sold off for *gold* which would be an addition to the gold reserve.

These measures, in short, were suggested to keep the exchange value of the rupee at a steady level of 16*d*. Thus, if exchange fell below 16*d*., the Government of India would adopt the following procedure :—First take rupees from its *balances*, melt them down, sell the bullion for *other rupees* in India, pay these other rupees into its balances, and the loss incurred by this process would be made good with part of the borrowed gold.

As a result, it was anticipated that by the automatic operations of trade, gold would flow into India and remain in circulation. But they wrote, "until the exchange value of the rupee was established at 16*d*. and sovereigns became, to some extent however small, a permanent part of the circulation, it was not the Government's intention to part with any of the gold in their possession. Meantime, *gold was not to be made legal tender in India*, though the Government looked forward to this as a future goal."

The Committee rejected the proposals.

The proposals were based on the belief that the rise in the exchange value of the rupee, subsequent to the year 1894–95, was due to a contraction of the currency relative to the demands of trade, and that the cause would continue to operate so long as the Indian Mints were closed to silver.

The Committee pronounced its opinion *against* this belief. They stated, "it is not certain that there has been any contraction of Indian Currency which has naturally affected the exchange, though it may not unreasonably be inferred that there must have been some contraction, and that such contraction had some influence on the exchange value of the rupee. On the other hand, there are causes other than contraction of currency."

They pointed out that since the mints were closed, there had been large borrowings on Indian account, and there had been in some years large reductions below the normal amount in the public remittances from India, while fluctuations had been experienced in the foreign trade of India, due to various causes. All these causes, they said, must at different times have affected the exchange either favourably or unfavourably. Besides, the reduction in the imports of silver due to the closing of the mints must have had a favourable effect on the Indian exchange.

In face of these facts, therefore, the Committee refused to accept that the rise in exchange was due mainly or wholly to contraction of currency, and that it was not safe to base action of so drastic a character on the assumption.

Besides, they stated: "though we accept in principle the proposition that a reduction in the number of rupees tends to increase the value of the rupees, we are not prepared to admit that such effect must necessarily be direct and immediate, nor are we satisfied that such reduction, carried out on a large scale and within a limited period, might not aggravate, if it did not produce, a *period of stringency* in the Indian money market." That such a stringency would be created was also emphasized by the commercial classes of India. Therefore, the proposals would not inspire confidence into them.

In their proposals the Government of India showed great anxiety to terminate the period of transition without further delay. They described this transition stage as the stage of distrust, which would be passed the moment exchange reached 16*d.* per rupee.

But, since they wrote in March, 1898, there had been a marked impovement in the position. The exchange was steady at or about 1*s.* 4*d.*, the drawings of the Secretary of State had been unusually large, and a substantial sum of over £2,370,000 in gold had been brought to the Indian Treasury, *i. e.* the stage of distrust, which had interfered with the actual realisation of a rate of 16*d.*, had been already passed.

On these grounds, therefore, the proposals were rejected by the Committee.

PART II—**Should the Mints be re-opened to Silver ?**

Various persons had represented to the Government of India that the Indian Mints should be re-opened to the unrestricted coinage of silver either immediately or gradually, *i. e.* India should have Silver Monometallism. The Government of India, on their part, pronounced their opinion *against it*, but asked the Committee to consider the question.

The arguments suggested in favour of reopening Mints.

The chief arguments in favour of re-opening the mints brought forward by its supporters were :—

(a) that the system of closed mints handicapped India in her industrial competition with countries on a silver standard ;

(b) that "a low Rupee and a low exchange" would encourage the export trade on which India's prosperity depended and that an "arbitrarily enhanced" Rupee discouraged exports.

The Committee refuted them.

This aspect of the question was considered by Lord Herschell's Committee which had expressed its opinion that "even if we assume the argument as to a stimulus or check to production to be sound, the effect of each successive fall in exchance must be transitory and could only continue until circumstances have brought about the inevitable adjustment."

In this opinion, the Fowler Committee concurred. The Herschell Committee had examined the statistics of Indian exports for a series of years, and had concluded that, far from the export trade having been encouraged by a falling exchange, its progress had been less with a rapidly falling than with a steady exchange. The Fowler Committee, too, were unable to find any statistical support for the theory that exports are largely and permanently stimulated by a depreciation of the standard of value, resulting in a fall in exchange, and they concluded that the statistics of the Indian export trade since 1893 were no good guide in deciding this question, for their value for this purpose was much diminished by the *special disturbing influences* to which that trade had been subjected since that date.

Besides, the Committee recognised that fluctuation of exchange constituted an obstacle to international trade, and wrote, "since over *four-fifths of India's seaborne foreign trade is with gold-standard* countries, it follows that the balance of advantage is heavily in favour of stability of exchange with gold standard countries ; and accordingly, considered by itself, the instability of exchange which must be anticipated from re-opening the Indian Mints to silver, is a powerful argument against taking the step". They emphasized that it was not in the permanent interests of India, that her foreign commerce, over 80 per cent. of which was with gold standard countries, should be hampered by the restoration of silver monometallism.

In view of these considerations, the Committee concurred with the Government of India in their decision not to revert to the silver standard.

PART III—**The Principle of a Gold Standard.**

The practical alternative to silver monometallism was a gold standard, *i.e.*, gold as the measure of value in India, either with a gold currency or with a gold reserve, and the Committee laid down certain advantages which India was to derive by adopting gold as the measure of value.

Advantages to India of a gold standard.

(*a*) In the first place, they referred to the fact that over four-fifths of the foreign trade of India was with gold standard countries, and that for the same reason it was desirable that India should have the same measure of value as those countries. Regard being had to the supremacy of gold in international commerce, the change to a gold basis would facilitate interchange of commodities. This advantage was represented before the Committee by Professor Marshall as "like a movement towards bringing the railway gauge on the side branches of the world's railways into unison with the main lines".

(b) A further and certainly not a less important consideration pointed out for a country like India was that an established gold standard was the simplest and most effective means of *attracting capital*. The need for foreign capital was indisputable, and this need was partly of a temporary and partly of a permanent character. For climatic reasons, India has been essentially a country of seasonal trade; she has had a busy season and a dull season. From this seasonal character, it followed that the demand for money has been much greater for one part of the year than for another. In the busy season, there has been a brisk demand for money for temporary advances to move crops; in the dull season money has been in little demand. This led to great seasonal variations in discount rates and to great *stringency* during the busy season.

In order, therefore, to diminish the risk to Indian commerce of a recurrence of such stringency, and in order to reduce the average rate charged for the local use of money, they recommended that the soundest policy was *to attract capital to India from the gold standard countries* which had capital to lend, and this could best be achieved by a gold standard and a stable exchange.

Besides, in order to develop and reap the benefit of her natural resources, India required, and must long continue to require, foreign capital. Such capital could only be drawn from the gold standard countries, and the capital of these countries could only be attracted by a moderate rate of interest or profit on condition, that the investor was satisfied, that there was not likely to be a fall in the sterling exchange.

Was accumulation of sufficient gold possible ?

The next question to be solved by the Committee was whether it would be practicable to have sufficient gold for the establishment of a gold standard. The Government of India pointed out that it was extremely unlikely to accumulate sufficient gold for the purpose, but the Committee proved by statistics that it was otherwise. At this time, when they considered the question, the amount of gold in the Paper Currency Reserve was £ 2,378,609 which was considered as a substantial addition to the Indian currency. Besides, by the sale of Council Bills the Government of India was able to remit, without disturbing the money market, nearly £18,712,454 worth gold to the Secretary of State.

If such results could be secured in the face of mistrust, it was argued that even greater success might be expected in the future with the growth of confidence. The question, therefore, arose: Should the *status quo* be allowed to continue until events forced the Government to take action? The

Committee declared itself against the *status quo.* To have matters as they were, specially after the Government of India had formulated proposals to curtail the transition period and had aroused public opinion on them, would be to create additional uncertainty and withdrawal of confidence in Indian monetary future.

On these grounds the Committee recommended the effective establishment of a gold standard.

PART IV—Should there be a Gold Standard without a Gold Currency ?

The Committee then considered two schemes which were proposed for establishing a gold standard *without* a gold currency.

(1) Mr. Lesley Probyn's Scheme.

Mr. Lesley Probyn laid great stress upon the *hoarding habits* of the natives of India ; and in view of the direct encouragement which a gold currency might give to the hoarding of gold, he represented before the Committee that, "if gold coins were passed into currency, it would be at first like pouring water into a sieve". He accordingly proposed :—

(i) to issue such notes only in exchange for gold ;

(ii) to institute a separate issue of *gold notes* of the denomination of Rs. 10,000 ;

(iii) to make them payable (at the option of the holder) either in rupees or in gold ;

(iv) to make it optional to the currency department, when gold is demanded, to pay either in sovereigns or in gold bars of not less than £67.

(v) to issue notes of *smaller denominations* as usual, but these were to be redeemable in *silver rupees only.*

By this scheme it was hoped that gold would be attracted to India, and that a gold reserve would be gradually accumulated which would be strong enough to allow the Government to undertake ultimately the universal convertibility into gold of all rupees and rupee-notes, when presented in parcels of not less than Rs. 10,000. Under this scheme the gold standard would be left to automatic agencies to establish, and its establishment would coincide with an ultimate undertaking to exchange rupee currency for gold bars of high value.

The Committee rejected the scheme.

The Committee pronounced its opinion against this scheme.

In the first place, as regards the hoarding difficulty in India, they were not satisfied that the danger therefrom was so great as was suggested. *Even under silver monometallism India imported and absorbed gold and would be expected to do so in the future, no matter what her system of currency.* In a strongly conservative country like India, no sudden changes were to be expected in the habits and customs of the people, particularly as regards currency and hoarding. And, until gold had penetrated into general circulation (so far as the relatively small transactions of India permitted), there would be no materially increased temptation to the people to hoard gold instead of silver.

Moreover, the introduction of a gold currency into India was *not to be an untried experiment.* Gold coins were in common circulation in India even before 1835 and formed the principal currency of various parts of the country. "If hoarding" they wrote, "did not render a gold circulation an impossibility in the past, we look for no such result in the *ture. The hoarding habit, in short, did not present such practical difficulties as to justify a permanent refusal to allow India to possess a gold currency."*

Besides, while bullion was an admitted international medium of exchange, there was, according to the Committee, no precedent for its permanent adoption for purposes of internal currency, nor did it accord with either European or Indian usage that the standard metal should not pass from hand to hand in the convenient form of current coin.

(2) Mr. A. M. Lindsay's Scheme (The Gold Exchange Standard.) Its chief aim.

Mr. A. M. Lindsay, Deputy Secretary of the Bank of Bengal, suggested a scheme of currency which would do away with a gold currency. His chief aim was to propose such a scheme that, when it was found necessary to prevent the rupee from *rising above specie-point*, the rupee currency could be expanded; and when it was found necessary to permit the rupee from *falling below specie-point*, the rupee currency could be *contracted*. In short, the system was to be automatic in order to keep exchange steady.

We have already seen that the Act of 1893 made provision for preventing the rupee from rising above 1*s*. 4*d*. by making it binding on the Government to give rupees in exchange for gold or gold sovereigns; but that no provision was made to prevent exchange from falling below Specie-point. *Mr. Lindsay's aim was to remove this deficiency by compelling the Government of India to give sterling (and not gold) in exchange for rupees.*

The essentials of the Scheme.

(1) A loan not exceeding £10,000,000 was to be raised in London and the amount was to be kept as a gold standard *reserve* in an office called the London Gold Standard Office.

(2) The Government of India would sell to applicants in India *sterling drafts* on London for not less than £1,000 at the rate of 1*s*. 3 3/4*d*, per rupee, and these were to be paid from the reserve located in London.

(3) On the other hand, the London office would sell to applicants in London rupee drafts on the Indian offices for not less than Rs. 15,000 at the rate of 1*s*. 4 1/16*d*. per rupee, and these were to be paid in rupees at Calcutta and Bombay.

✓ (4) If an excess of rupees accumulated as the result of selling drafts (*i.e.* if the reserve in London were depleted) the excess would be sold as bullion and the proceeds to be credited to the reserve in London ; if, however, the stock of rupees were insufficient in India, silver would be purchased out of the London reserve and sent to India to be coined in rupees.

Thus, if at a particular time contraction of currency was found to be necessary to keep exchange steady, sterling drafts would be sold in India for rupees, and rupee currency would be consequently withdrawn from circulation ; if, on the contrary, expansion of currency was necessary rupee drafts would be sold in London which would be paid for in rupees in India, so that rupee circulation would be increased.

It may be noted that rupees were to continue to form the circulating medium in India, gold not being admitted to legal tender.

The Fowler Committee rejected the Scheme.

The Fowler Committee rejected this scheme more or less on the same ground as Mr. Probyn's bullion scheme. "It is evident," they wrote, "that the arguments which tell against the permanent adoption of Mr. Probyn's bullion scheme and in favour of a gold currency for India, tell *more strongly against* Mr. Lindsay's ingenious scheme for what has been termed "*an exchange standard.*" The Committee were impressed by the evidence of Lord Rothschild and others, that *any system without a* *visible gold currency would be looked upon with distrust.* In face of this expression of opinion they concluded:

(1) that the adoption of Mr. Lindsay's scheme would *check that flow of capital to India* upon which her ecnomic future so greatly depended;

(2) that, if any such system were to be permanent, it would base India's gold standard for all time *on a few millions of gold* (or rather command over gold) in London, with a liability to pay out gold in London, in exchange for rupees received in India, to an indefinite extent.

This was the main reason which made the Government of India* reject the scheme and the Committee found full justification for their decision.

PART V—**Recommendations of the Committee.**

We have now to consider the recommendations of the Committee.

(A) Gold currency for India.

Their most important recommendation was that the *British Sovereign* should be made a legal tender and a current coin in India. They considered that, at the same time,

*Other arguments against the scheme were stated by Sir James Westland, the Finance Member, who in a minute to the despatch of the Government of India wrote: (1) that a gold reserve intended to support the introduction and maintenance of a gold standard in any country ought to be kept in the country, if it is to produce its full effect in the way of establishing the confidence which is almost indispensable to the success of the measure. If the Indian gold reserve is located in London and the public believe that it may at any time vanish in supplying the requirements of trade or of the Secretary of State, confidence will hardly be established; (2) that the scheme did not provide for sufficient control over the exchange.

the Indian-Mints should be thrown open to the *unrestricted coinage of gold* on terms and conditions such as governed the three Australian Branches of the Royal Mint. The result would be that, under identical conditions, the sovereign would be coined and would circulate both in England and in India.

Thus, the *Sovereign* was to be the standard coin of India. "Looking forward as we do to the *effective establishment in India of a gold standard and currency based on the principles of the free inflow and outflow of gold*, we recommend these measures for adoption."

(B) Convertibility of the Rupee.

But under an effective gold standard the rupee would become a *token coin*, subsidiary to the sovereign. In principle the existence of token coins postulates that they should be *limited legal tender*.

But in the case of the rupees the Committee decided that conditions then prevailing in India did not warrant the imposition of a limit *i. e.* they were to be left unlimited legal tender. What was the reason on which they based their decision? They stated that, if there were a limit placed on the *total issue of rupees* in circulation, it would make the rupee permanently exchangeable for gold at a fixed rate, and consequently there would be no necessity of making the rupee limited legal tender. The experience which had been gained since the closing of the Indian mints to the free coinage of silver supported the belief that this result could be attained.

They quoted two principal instances of countries with a gold standard and currency, which admitted silver coins to *unlimited* legal tender. These countries were France and the United States of America, which did it successfully by keeping their mints closed to the free coinage of silver. The special difficulty in the case of India was one of degree and not of principle.

They, therefore, thought that keeping the Indian mints closed to the free coinage of silver was an *adequate restriction*, and that it made it unnecessary to put any limit on the amount for which tokens were a tender by law.

(1) Such being the case, they recommended that the Government of India should not be bound by law *to give gold in exchange* for rupees for internal purposes. Because such an obligation would impose on the Government a liability to find gold at a moment's notice to an amount which could not be defined beforehand, and this would necessitate borrowing of gold at a heavy sacrifice.

(2) But they recommended that as the principal use of gold reserve was that it should be freely available for *foreign remittances when the exchange fell below specie-point, the Government of India should make its gold available for such a purpose, when a necessity arose for its export.*

(3) Besides, the Government should continue to *give rupees* for gold, but fresh rupees should not be coined until the proportion of gold in the currency was found to exceed the requirements of the public.

(4) And, in order to have sufficient gold for making it available to the public for export, they recommended the formation of *a gold resrve*. They wrote, "We also recommend *that any profit on the*

coinage of rupees should not be credited to the revenue or held as a portion of the ordinary balance of the Government of India, *but should be kept in gold as a special reserve* entirely apart from Paper Currency Reserve and the ordinary Treasury balances".

(C) The Sterling rate for the Rupee.

But what was to be the fixed relation which, under a gold standard for India, the rupee was to bear to the Sovereign? The Committee, excepting two of its members*, recommended that the ratio should be 1*s*. 4*d*. per rupee on the following chief grounds:—

(i) that it was the rate then prevailing and that the continuance of existing arrangements, under which no fresh rupees were coined except in exchange for gold at a fixed rate, must tend more and more to establish the exchange at that rate;

(ii) that in 1898–99 at 16*d*. rate of exchange, as we have pointed out, an enormous volume of export trade was achieved without monetary stringency and a sufficient gold reserve was accumulated;

(iii) that prices in India might be assumed to have adjusted themselves to 16*d*. rate and that there was no sufficient reason for altering the existing relations of prices and the essential conditions of contracts expressed in Indian currency.

Thus, they concluded that experience gained since 1893, and particularly that of the eighteen months before writing the report, appeared to them

*Two out of the eleven members of the Committee, Messrs. Robert Campbell and John Muir, recommended the 1*s*. 3*d*. per rupee rate.

to justify the anticipation that the 1*s.* 4*d.* per rupee rate possessed elements of permanent stability and would be maintained in the future.

Synopsis of the Recommendations :—

The main recommendations of the Fowler Committee were the following :—

(*a*) that the *British Sovereign* should be made a legal tender and a *current coin in India* and that Indian Mints should be thrown open to the unrestricted coinage of gold. Their real object was the *effective establishment in India* of a *gold standard and currency based on the principles of the free inflow and outflow of gold;*

(*b*) that Government should continue to give rupees for gold but *fresh rupees should not be coined until the proportion of the gold in the currency is found to exceed the requirements of the public ;*

(*c*) that any profit on the coinage of rupees should not be credited to the revenue or held as a portion of the ordinary balance of the Government of India but *should be kept in Gold as a special reserve* entirely apart from the Paper Currency Reserve and ordinary Treasury balance ;

(*d*) that when Government has accumulated a sufficient gold reserve and so long as gold is available in its Treasury, *it might discharge its obligations in India in gold* instead of rupees ;

(*e*) that the relation of the sovereign to the rupee should be *1s. 4d. per rupee ;*

(*f*) that the *rupee*, although made a token coin, should be kept *unlimited legal tender*.

BOOK II

The Twentieth Century

CHAPTER IV.

Pre-War Period (A)—1900-1907.

Departures from Fowler's Recommendations. (Drifting towards the Gold Exchange Standard.)

The Act of 1899.

The recommendations of the Fowler Committee were accepted in their entirety by the Indian authorities and the Indian Coinage Act No. XXII of 1899 made the sovereign and half-sovereign legal tender throughout India at Rs. 15 to the £, and thus gave effect to its first recommendation. Active steps were also taken to give effect to the second recommendation of the Committee, *viz.*, the opening of a mint for the coinage of gold in India.

It now remains to consider the history of events since 1899.

(A) Ideal of Gold Mints is dropped.

In the first place, a gold mint could not be instituted without the sanction of the Royal Mint, as the English Sovereign was to be standard coin in India. But far from giving the sanction, the British Treasury objected* to the establishment of a gold mint in India on various grounds. They did not think that sufficient gold would be available in India to enable the Mint to continue for a long time, nor did they think it advisable to let the Indian Treasury bear the cost of the mint.

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*Wadia and Joshi: *Money and the Money Market in India*, page 199.

urgent need for railway development. And in making this proposal they put before the Government the object of the Gold Standard Reserve.

In spite of this, the Mackay Committee justified their recommendation on the ground that even after drawing £1 million from the Gold Standard Reserve there would be sufficient gold left to meet the eventuality of a falling off in the demand for Council Bills. But the Secretary of State went beyond their recommendation and decided that for the future *one half* of any profits on the coinage of rupees should be used for capital expenditure on railways until the Gold Standard Reserve reached £20,000,000. It was apparently contemplated that, after that total had been reached, the whole profits on silver coinage should be diverted from the reserve. In spite of protest from the Government of India, he diverted £1,123,000, and adhered to his decision with regard to the future use of the profit on the coinage. But a serious crisis occurred in 1907-08 which made him change his decision.

The action of the Secretary of State shows that the definite object of the Gold Standard Reserve, *that of stabilising the gold value of the rupee*, and thereby successfully working the gold exchange standard, (which we shall study later), was not as yet thought out clearly.

(D) The function of the paper currency reserve is diverted.

When the coinage of rupees had to be resumed early in 1900, recourse to the London silver market became necessary and silver was bought with the gold held in the Paper Currency Reserve in London. A provision authorising the Government *to use the gold held in the Paper Currency Reserve* for the purchase of silver for coinage was included in the Act of 1898, which was continued for two years. But an Act of 1902 made the whole of these provisions permanent, although they were issued during times of emergency. Thus *the function of the Paper Currency Reserve*, that of supporting the convertibility of the notes, was *diverted to that of buying silver for coinage.*

(E) Diverting gold from India.

Meanwhile, the practice of shipping to London gold accumulated in the Paper Currency Reserve in India was recognised to be needlessly expensive. The gold, it was seen, reached India in the first place at the cost of individuals, and then had to be shipped back to London by and at the cost of Government after the public had handed it on to the Government in exchange for rupees. If the practice of receiving gold in London in exchange for rupees in India were extended, Indian revenue could be saved the expense of shipping gold to London, and a large part of the cost of sending gold to India could be realised in the selling price of the Council Drafts.

(1) Accordingly the practice introduced in 1898 of selling Council Drafts for gold in London, and issuing notes against such gold in India, was extended, and since 1904 the Secretary of State kept open a standing offer to sell Council Bills without limit (*i.e.* over and above his requirements) at the price of 1*s.* $4\frac{1}{8}$*d.* which was the normal gold export point from London to India.

(2) Moreover, the Secretary of State increased the sale of the Bills by selling them below the gold export point.

What was the economic result of the sale of Council Bills without limit and below gold point? In normal times one of the methods of paying for India's favourable balance of trade was by the remittance of gold bullion and sovereigns to India. But by the limitless sale of Council Bills, and their sale below gold export point, gold bullion and sovereigns were prevented from flowing to India.

Conclusions. *Thus the divergences made from Fowler's Scheme were as follows :—*

A (1) The scheme for a gold mint was dropped.

B (2) The recoinage of rupees was indulged in during this period.*

C (3) The location and use of the Reserve formed from the profits on the coinage of rupees were diverted;

(*a*) The Gold Standard Reserve was invested in securities in London.

(*b*) The silver branch of the Gold Standard Reserve was formed.

(*c*) A part of the Gold Standard Reserve was diverted to Railway capital expenditure.

E (4) Council Bills were sold without limit, and at times, at something below gold point against the currency reserve, thus preventing gold from flowing to India.

D (5) The gold of the Paper Currency Reserve was used to buy silver for coinage.

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*"The effects of heavy coinage are cumulative. The Indian authorities do not seem to have understood this. They framed their policy as though a community consumed currency with the same steady appetite with which some communities consume beer." (Keyne's *Indian Currency and Finance*). This points to the fact that there was over-issue of coined rupees during this period.

Period (B)—1907-14.

PART I—The Crisis of 1907-8 (and completion of the Gold Exchange Standard)

Gold Standard Reserve maintains exchange.

In 1907-8 various adverse circumstances led to a crisis in exchange in India; and for the *first time* since the rupee was fixed at 1*s.* 4*d.*, the Gold Standard Reserve and the other sterling resources of the Government of India were utilised to *maintain the exchange value of the rupee. Thus was completed the mechanism for the successful working of the Gold Exchange Standard.*

Causes of the fall in exchange.

During the year various causes brought about a fall in the exchange value of the rupee :—

The summer monsoon of 1907 had partially failed and our exportable commodities diminished as a consequence.

To this was added a serious financial crisis in America, which resulted in a general monetary stringency all over the world, and the Bank of England was actually compelled to raise its rate of discount considerably.

Both these causes resulted in a heavy fall in the demand for Council Bills and for some months none could be sold. The Indian exchange began to fall steadily until it reached the lowest point 1*s.* 3 11/16*d.* (on 25th November.)

What should have been the remedy?

What should have been the best remedy to strengthen a falling exchange? The Government of *India should have given gold freely for export to* those who had to meet their liabilities in England. Those who needed gold would have paid for it in rupees *i.e.* rupees would have been withdrawn from circulation and gold would have come out of the reserves, and as a consequence, the exchange value of the rupee would have risen. Even the Fowler Committee had laid great stress on the giving away of gold freely for export in case of weak exchange.

The Steps taken by Government of India.

But the steps taken by the Government in the beginning were different.

(*a*) The Government of India were asked by the Exchange Banks to sell telegraphic transfers on London at Rs. 15 to the £, but, after consulting the Secretary of State, they refused to do so.

(*b*) Then the Government of India refused to give gold from the Paper Currency Reserve for export in larger quantities than £ 10,000 to any one individual in one day.

(*c*) British Postal orders for £10,000 and other large sums began to be bought as a means of obtaining remittance to London.

(*d*) But the situation did not improve, and businessmen and banks continued to clamour for gold for export. Ultimately (it was not till 3rd December, 1907), the Secretary of State was induced by the Government of India to permit them to give gold for export, although they continued to give gold for internal purposes. And the Secretary of State, being unable to sell Council Bills, released gold from the Paper Currency Reserve in London against the transfer of an equivalent amount of rupees from the

Treasury balances to the Paper Currency Reserve in India. These actions, therefore, improved exchange a little.

(*e*) Although the normally busy season went on, rates remained weak and the situation did not improve, and it was decided on the 4th March, 1908, to make weekly sales *in India* of a certain maximum quantity of *sterling bills* on London at the fixed rate of 1*s*. 3 29/32*d*., and on the 26th March, 1908, such bills were first sold. Meanwhile, the Secretary of State had taken steps to realise some of the securities belonging to *the Gold Standard Reserve* in order to have money ready to *meet the bills sold in India*. These Bills continued to be sold freely in India until (on 11th September, 1908), the exchange appeared to have sufficiently strengthened owing to a good monsoon, and the Government of India discontinued them.

In all, £ 8,058,000 were withdrawn during this period from the Gold Standard Reserve to meet these Reverse Bills, and in India, by the sale of these Bills, more than Rs. 12 crores were withdrawn from circulation, in order to strengthen the exchange.

The total gold resources used in India and London together during this one year of crisis amounted to nearly £ 18,000,000.

The Lessons of the Crisis.

The experience of the crisis taught various lessons, which had an important bearing on the future of Indian Currency.

The first serious lesson learnt was that the authorities failed to recognise the wisdom of the recommendation of the Fowler Committee which was that the principal use of a gold reserve is that it should be freely available for foreign remittances whenever the exchange falls below specie point.

The second lesson learnt was that the Government should formulate, in advance, the policy it intended to follow during a crisis, and give ample publicity to it. "It is almost as important that the general public should have confidence in the determination of the Government effectively to use their resources to maintain the rupee at 1*s.* 4*d.*, as it is that the Government should have the necessary resources for so doing."*

Besides, the crisis revealed the nature of the Indian Currency system, which was more like the system advocated by Mr. A. M. Lindsay in 1898 and which was rejected by the Fowler Committee. The machinery employed to establish the exchange value of the rupee based the system on what is generally known as the *Gold Exchange Standard.*

The rupee was established by this mechanism, *but the result was not obtained without considerable cost*†, *and the struggle imposed a severe drain on the gold resources of India.*

*Chamberlain Committee's Report, para 52.

†Howard *India and the Gold Standard*, pages 35-36.

"In London the sovereigns in the currency chest were reduced from £7 millions to £1½ millions ; Reserve securities to the value of £8,100,497 were put on the market, and all interest on investment was paid away as it accrued. In India the entire stock of gold was exhausted. In October 1907 when the trouble began, the currency chests, treasuries and mints held £4¼ millions of sovereigns. On March 31st, 1908, the stock had fallen to £100,000 and all further issues had been stopped."

PART II—Currency Policy 1909-13.

Gold Currency or Gold Exchange Standard for India ?

We just saw above that the gold reserves of the Government of India suffered severely in the attempt to raise the exchange value of the rupee. This, therefore, aroused strong public criticism, and the Government of India found it necessary to revise the currency policy and entered into long correspondence with the Secretary of State over it.

Policy proposed by Government of India. (A gold currency.)

The Government of India, on their part, wrote strongly in favour of the following :—

(*a*) In the first place, in their despatch of 1st April 1909, they pleaded for a *larger Gold Standard Reserve* to meet greater emergencies than that of 1907-8. They considered that the minimum amount in the Gold Standard Reserve should be £25 millions, apart from the gold in the Paper Currency Reserve and Treasuries and that, therefore, the profits on the coinage of rupees should not be diverted to capital expenditure on railways until this limit was reached.

(*b*) They also proposed that a substantial bulk of the Gold Standard Reserve should be kept in a *liquid form*, instead of being invested in securities, because, during a crisis, the latter could not be readily realised and gold made available, or realised without considerable loss.

(*c*) The Government also urged the importance of *holding a large amount of gold in India*, and proposed that at least two-thirds of the total gold

(£ 13,000,000) held in the Paper Currency Reserve, should be kept in India; and that until this limit were reached, the Secretary of State should not add to the gold in the Paper Currency Reserve in London. In support of this, in their despatch of 30th September, 1909, they wrote:—"Though gold was still far from having obtained that popularity which the interests of exchange render desirable, *there were indications of a greatly extended use of the sovereign in commercial transactions*. It was estimated, for instance, by our Controller-General that it might shortly be possible to finance in gold no less than 20 per cent. of the up-country cotton trade of Bombay. This promising development has naturally received a severe check as a result of recent events. We, therefore, judge it to be eminently desirable to increase the local gold holding in our Paper Currency Reserve. *We could face another exchange crisis with far greater equanimity could we be assured both of an active circulation of sovereigns in the country and of a strong reserve in our currency chest*. The former will enable the ready export of superfluous currency, which the strength of our own reserve would enable us at once to assist this process, and, by free uses of gold, to bring about that restoration of public confidence which is of vital importance in the early stages of a panic."

(*d*) As an outcome of the resolution moved in 1912 by the late Sir Vithaldas Thackersey in the Imperial Legislative Council, the Government of

India in their despatch of 16th May, 1912, asked the Secretary of State's sanction for the *coinage of sovereigns* at the Bombay Mint.*

The Secretary of State champions the Gold Exchange Standard.

We have now to see how far these recommendations received the approval of the Secretary of State.

(A) As regards the amount of gold to be kept in the Gold Standard Reserve, the Secretary of State agreed, after great persuasion, that £25 millions should be the standard before the profits on coinage could be diverted.

(B) But he did *not* agree to the proposal to keep a substantial part of the Gold Standard Reserve in a liquid form, except for the amount £1 million, which he decided to let out in short loans or to put into bank deposits. Of the balance he would hold a considerable portion in high class securities with a near date of redemption, and the remainder in Consols or other approved stock.

(C) As regards the strengthening of the gold in the Paper Currency Reserve and its location, the Secretary of State decided that it was more advantageous to *hold it in London* than in India. In support of this decision he stated that if the rate of exchange fell so low that it led to the suspension of the sale of Council Bills in London, gold in *circulation in India would be of little or no use for supporting exchange*, at any rate, immediately, since it

*Sir Vithaldas Thackersey moved a resolution in the Imperial Legislative Council to the effect that the Indian Mints might be thrown open to the free coinage of gold, and he suggested the coinage of a ten-rupee gold coin. On the Government giving him the assurance that the Secretary of State would be approached with a request to that effect, the resolution was withdrawn by him.

could probably not be exported, and would obviously not be available towards defraying the Home Charges. On the other hand, he showed the advantages of holding gold in London and wrote :—

"Gold held in England is available for supporting exchange not only when the rate falls to gold export point (when it can be used for meeting bills on London sold in India), but also at the earlier stage when the rate has fallen only to the point at which the suspension of Council Bills is desirable (when it can be used towards defraying the Home Charges). The Stock is not liable to be depleted by any cause corresponding to the disappearance into hoards of gold in India. When the demand for remittances is strong, gold in England is available for any purchase of silver that may become necessary."

He, therefore, was unwilling to commit himself to a postponement of any increase of the stock of gold in England.

(D) With regard to the proposal for the minting of gold coins in India, the Secretary of State suggested the coinage in Bombay of a ten-rupee gold coin to avoid various difficulties that had arisen with His Majesty's Treasury. But the minting was postponed until the decision on it was given by the Chamberlain Commission, which had already been appointed.

Conclusions.

Two conclusions follow from these discussions on currency policy :

(1) that, although the Government of India pleaded for a gold standard with a gold currency for India, *the Secretary of State decided in favour of the Gold Exchange Standard*;

(2) that it was left for a Royal Commission to give its blessings to the Gold Exchange Standard by giving it permanency, and the *Chamberlain Commission was appointed.*

PART III—Findings of the Chamberlain Commission (1913-14)

(The Gold Exchange Standard is most suited to India.)

The strong feeling in India with regard to the new currency policy evolved after 1899, and the difference of opinion between the Government of India and the Secretary of State on the same, meant that time was ripe for the establishment of a Royal Commission. A Commission was appointed in April, 1913, with the Right Hon. Mr. Austen Chamberlain as the Chairman, and it reported in February, 1914. Of the ten members of the Commission, one member of great practical monetary experience in India, Sir James Begbie, wrote a dissenting minute entirely disassociating himself from the conclusions and recommendations of the majority.

The terms of reference.

They were asked to enquire into the following :—

> The location and the management of the general balances of the Government of India; the sale in London of Council Bills and transfers; the measures taken by the Indian Government and the Secretary of State for India in Council to maintain the exchange value of the rupee in pursuance of or supplementary to the recommendations of the Indian Currency Committee of 1898, more particularly with regard to the location, disposition, and employment of the Gold Standard and Paper Currency Reserves; and whether the existing practice in these matters was conducive to the interests of India; also to report as to the suitability of the financial organisation and procedure of the India Office; and to make recommendations.

Of these we shall deal with only those that are obviously currency matters, leaving aside financial matters.

SECTION I—Arguments in support of the Gold Exchange Standard.

(1) In the first place, the Commission gave a summary of Indian Currency History from 1893 (which is not necessary to reproduce), and decided in favour of the continuance of the Gold Exchange Standard.

According to them, *force of circumstances* compelled the Government to evolve a new system, which was contrary to the one sanctioned by the Fowler Committee. The system actually in operation (the Gold Exchange Standard), they stated, had never been deliberately adopted as a consistent whole, nor did the authorities themselves appear always to have had a clear idea of the final object to be attained. To a great extent *this system was the result of a series of experiments*. But to state this was by no means to condemn the action or the system actually in force.

Then there is the admission that the authorities were subject to mistaken ideas which were quickly rectified in practice. But the steps taken to restore and maintain exchange proved adequate. Thus, they stated, "it is easy to see after the event (crisis of 1907-8) that in this or that point a mistake was made, but, regard being had to the difficulties and the novelty of the circumstances, *the final success achieved by the Indian authorities, both in India and in this country*, must be recognised as a proof of the *soundness of the currency scheme itself* and of the measures ultimately taken for meeting the crisis."

In short, their argument was that the crisis of 1907-8 and subsequent experiences had proved that it would be possible to maintain the purchasing power of the Rupee *outside India* at Rs. 15 to the sovereign *without the aid of a gold currency circulating within India.*

Sir James Begbie's Rejoinder.

The Majority had pressed the point *that the* public preferred and demanded rupees, and the demand had to be met. This, in fact, had been the fundamental difficulty which led to the evolution of the new system of currency. But, Sir James Begbie pointed out that no doubt that was a reason which carried considerable weight in the early years of the period during which the policy had been developed, but "*it had now lost its force*". The *public had absorbed during the last 12 years, approximately, equal amounts* of rupees and sovereigns, but the demand for sovereigns had rapidly increased during the last four years. These gold requirements showed *an important* change *in the currency* needs of the people, and indicated a preference for *gold over rupees.*

(2) The second argument stated in support of the Gold Exchange Standard was that the Indian system so far evolved, had close affinities with other currency systems in some of the great European and Asiatic countries, *e. g.* Russia, Holland, Austria-Hungary or Japan. In these countries, as in India, they stated, "*gold actually in circulation is of secondary importance*, and the internal medium of exchange, whether it be a silver coin or a paper note, depends for its value in exchange not on its own intrinsic worth, but on the maintenance in reserve of gold or resources readily convertible into gold, and in the case of Russia and Japan, at any rate, large portions of the gold resources are held not at home,

but in London, Paris, and other monetary centres, just as India's Gold Standard Reserve is held in London."

"But such analogies," wrote Sir James Begbie, "are unsafe as a guide to Indian policy, because the *conditions are not identical.* (a) In none of those other countries is there the same *private absorption of gold* that there is in India; (b) Whatever experience elsewhere may be, the recent demands for gold in India *show a loss of confidence on the part of the public in the token rupee*, and that is a situation that should not be ignored. The need for confidence to secure the exchange value of the rupee is recognized, but not the need of confidence in the currency in other respects. It is no longer possible to say that the token rupee is preferred by the Indian public and satisfies their currency requirements in face of the fact that they have latterly exhibited so strong a desire for gold as the *statistics indicate.* At least there is not now such general confidence in the Rupee as would, in my opinion, alone warrant further large extensions of the token currency."

Sir James Begbie's Rejoinder.

(3) Another argument given by the Majority was that it was desirable *to educate people in the use of more economical forms of currency than gold.*

" That is", wrote Sir James Begbie, "a desirable object. The increased circulation of notes may be pointed to as an advance towards the use of more economical forms of currency; but it is due, not solely to a desire to economise in currency, but partly at least to increased facilities for the employment of notes. This demand for gold coin, accompanied as it has been by increas-

Sir James Begbie's rejoinder.

ed demands for gold bullion, dominates the whole currency system. *For a country which takes gold in great quantities an extensive token currency is most unsuitable. It has the usual effect of driving gold out of circulation. It has the still greater disadvantage that it keeps the gold out of useful employment. People who value gold so highly as to store and hold it to the extent witnessed in India are not likely to invest or make other profitable use of it, so long as they have to take the risk of being repaid in token coins when they realise their investments.* The token currency not only prevents the holders of gold from utilising it to some advantage, but the country as a whole loses the benefit that should accrue to it from the possession of great wealth—What is needed is not education in the use of economical currency so much as *education in the use of stored up gold*. The first step, however, is to convince the people that if they use their gold they will get it back when they want it, and that cannot be done while there is this extensive and expanding token currency. A currency in which gold was a more prominent feature and to which token coins were less freely added would be more practical as an educative force."

SECTION II—**Reasons advanced against Gold in Circulation.**

Having defended the existence and the working of the Gold Exchange Standard, the Majority in their report, gave careful consideration to various arguments put forward by witnesses in favour of gold in circulation. Since some of the arguments recur even to-day, it would be profitable to deal with them at length.

(*a*) The most weighty argument which several witnesses put forward was that *gold in circulation was calculated in the long run to strengthen exchange.* The Majority analysed this argument carefully as follows :

In the first place, some witnesses seemed to imply that, if gold were to be used in India to *the same extent as* in, say, the *United Kingdom or Germany*, the exchange problem would be largely simplified.

In the opinion of the Majority, this was a mistaken belief. Because in these countries the stability of exchange depended on the central reserves of the banks of these countries with their influence on other banks and the money market and their bank policy, and not on gold in the pockets of the people.

If, however, the advocates of gold currency desired that gold in circulation should be used to a *very great extent* as, for example, in Egypt, then the Majority considered that gold would be performing the function of strengthening exchange successfully. For in Egypt a large percentage of the value of the total transactions was carried out in gold, instead of a very small percentage as in the United Kingdom or India ; so that, in case of a contraction of business a nearly proportionate amount of gold would be released for export. But in order to attain to this position in India, it would be necessary to reduce the note issue to a comparatively insignificant position, and to withdraw from circulation, at large expense, a considerable part of the rupees.

If, however, the advocates desired *that gold should increase gradually* without detriment to the notes and rupees in circulation, the Majority declared that gold must continue to occupy, for many years to come, a subsidiary position in the currency, and exchange would not benefit materially from a circulation of gold on a moderate scale, as was proved by the crisis of 1907-8.

But the question would arise as *to the source* from which the gold was to come. If the gold took the place of new rupees, which it would be necessary to mint, the effect would be to diminish the strength of the Gold Standard Reserve by the amount of the profit which would have been made from the new coinage. This would bring to an end its natural growth. Besides, if gold were to replace notes and rupees in circulation, the consequence would be a rapid depletion of the Paper Currency Reserve which serves as a substantial aid to the Gold Standard Reserve. Thus, the weakening of both the reserves might gravely weaken the Government's position at a time of exchange difficulty, because "*sovereign for sovereign, gold in circulation is less effective than gold in reserve for supporting exchange.*"

Sir James Begbie's Rejoinder.

"That, of course, is true," wrote Sir James Begbie, "but it is equally true that *gold in circulation is a better protection for exchange than token coins.* Gold in circulation can never endanger exchange stability. It cannot be too strongly emphasised *that danger lies in the token currency alone when unfavourable trade conditions prevail.* In the words of the Report (of the Majority) 'it is the surplus tokens and not the gold which will seek an outlet at times of weak exchange.'"

(b) Various witnesses objected to the coinage of fresh rupees because of the danger to exchange of a very large circulation of tokens. But the majority stated that in many respects *gold was a far more formidable rival to the note issue* than to rupees, "since for many purposes a coin of so high a value as the sovereign cannot possibly take the place of rupees. There is some evidence that the popularity of sovereigns did hinder the use of notes in certain parts of India. Whilst experience has shown that a public preference for gold, or alternately for notes, is largely a matter of habit and custom. To habituate a people, therefore, to the use of sovereigns is almost certain in the long run *to militate against the use of notes which is not a desirable goal.* Notes is a more desirable form of currency than gold coins."

Sir James Begbie's Rejoinder.

But Sir James Begbie wrote, "notes will usually be preferred to coin, whether gold or silver, for such purposes as bank cash reserves and for effecting remittances. If the use of notes for other purposes is endangered by a circulation of gold coins, because people prefer the latter, it has to be remembered that the notes may be affected by the growing demands for gold. If the public want gold they will get it whether they hold notes or rupees, and when they prefer gold they are not likely to be satisfied with notes, payment of which can be demanded only in rupees."

(c) Certain witnesses argued that gold currency was a necessary step towards what may be regarded as the ideal currency, *viz.*, paper backed by gold in reserve.

On this argument the Majority stated that history gave no support to the view that a paper currency could only be reached after a gold currency had been in circulation. "A paper currency, if readily encashable, is the most economical medium of circulation, and at the same time provides a readily available reserve of gold for foreign remittances."

(*d*) It was also said by many witnesses that until India had a gold currency in active circulation, India would continue to possess an artificial and *managed currency*, it being implied that a managed system is a bad system. The ideal with which this "managed system" was contrasted was the system of the United Kingdom where there was free coinage and the standard coin could be obtained *by any one* who took gold to the mint for coinage.

The Majority saw no value in this contrast. According to them there did not appear to be any essential difference between the power to import sovereigns at will and the power to have gold coined into sovereigns in India. "In the fact that the rupee is a token which passes at a value above its intrinsic value and is at the same time unlimited legal tender, the Indian currency system may be called managed, particularly because it is not practicable even to consider the limitation of the amount for which the rupee is legal tender. But because it is to this extent a managed system, it is not correct to say that it is a bad system."

(*e*) Besides, the Majority also regarded gold in circulation as *wasteful*, because of the *wasteful habit of hoarding* prevailing in India. "The hoarding habit is sanctioned by the experience of centuries in India and by religious and racial laws and customs, and until the habit of banking takes the place of the hoarding habit as a means of securing and increasing savings, it would be wasteful to have gold in circulation."

Sir James Begbie's Rejoinder.

"The hoarding habit in India is indeed a difficult problem. Its recent development in increased demand for gold, and the possibility of its further expansion make it a question of the highest importance." But, said Sir James Begbie, "*that is to a large extent the outcome of the policy which has brought into existence token currency*. Upto the closing of the mints in 1893 to the free coinage of silver, the public had been accustomed for generations to *full-value* coins for their currency requirements, and *they are not now prepared to hold their profits and savings in the form of over-valued rupees*. Hence their preference for gold, both coin and bullion. The habit is, therefore, not inevitable and is capable of being improved. The statistics show, on the one hand, that great progress has been made in attracting the cash reserves of the people into profitable investments, but on the other, they show a retrograde movement in favour of hoarding due to the *natural desire for solid security* which is not to be had in investments which are made in token currency. It is surely not to the interest of India to have its rapidly accumulating wealth diverted into idle hoards by the token currency policy."

Besides, *if the gold held in hoards in India was to be attracted into useful employment*, "it can be done only by providing security that when it is invested the investment will continue to represent gold, and be convertible into gold, by *means of a gold currency policy* in which the public will have confidence."

(*f*) The Majority also concluded that "India neither demands nor requires gold coins for currency." But this statement called for correction. The fact that India imported, apart from gold bullion, over £ 60,000,000 in sovereigns in the last twelve years (*i.e.* almost as much as the value of the new coinage of rupees in the same period), clearly proved that India did demand and require gold coins. "The fact is that India now demands gold monetary tools as insistently as she used to demand silver tools; and the reasons are obvious—a growing distrust in the token rupee, and a growing appreciation of the superior attractions of the sovereign as currency."*

SECTION III—**Gold Mint for India was unnecessary.**

Various witnesses also advocated the institution of a gold mint for India.

Some witnesses recommended a gold mint on the ground that it would *facilitate a flow of gold to India.* But the Majority considered that this argument had lost its weight because gold did flow freely to India without this stimulus, and they doubted if more could have been attracted by mere facilities for coinage.

Others recommended it on the ground that the mere fact of gold being coined in India *would win public confidence* in the stability of the exchange value of the rupee.

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*Indian Finance and Currency (A Note on the report of the Chamberlain Commission) by Sir M. de P. Webb. Para 40.

But the Majority stated that this consideration had its force in 1899 and 1900, but the experience of 1907-8, the growth of the Gold Standard Reserve, and the whole trend of policy and opinion since 1898, showed how determinately and successfully the Government maintained exchange.

The idea of a gold mint was also pressed on the ground that it *would increase the amount of gold in circulation*.

The Majority considered that, even if it was thought in itself desirable, the mere existence of a mint for the coinage of gold could not add to the amount of gold available for currency purposes. Nor was it possible that it would encourage gold to come out of the hoards in unfavourable seasons. Indeed, in times of famine and distress, gold did come out of the hoards, but the existence of a gold mint was not likely to increase it. It would come out even in exchange for notes or rupees in difficult times.

If, therefore, the Government of India were to *renew the notification*, withdrawn in 1906, of *their readiness to receive refined gold at the Bombay Mint in exchange for notes or rupees*, it would remove the only practical grievance which could be alleged against the present system in this respect and *would render unnecessary the opening of a gold mint*.

But the Majority stated that "if Indian sentiment genuinely demands it, and the Government of India are prepared to incur the expense, there is, in our opinion, no objection on principle either from the Indian or the Imperial stand-point, provided always that the coin to be minted is the sovereign (or the half-sovereign); and *it is pre-eminently a question in which Indian sentiment should prevail*."

Summary of Conclusions and Recommendations.

I. *The Gold Exchange Standard was suited to India because:*

(*a*) the establishment of the *exchange value of the* rupee on a stable basis had been of the first importance to India;

(*b*) *the measures adopted* for the maintenance of the rupee (although necessarily and rightly supplementary to, than in all respects directly in pursuance of the rcommendations of the Fowler Committee) *worked well* in the crisis of 1907-8, the only occasion on which they were severely tested;

(*c*) the most generally suitable media of internal circulation in India were rupees and notes, but the use of notes should be encouraged. The essential point was that the internal currency should be supported for exchange purposes by a thoroughly adequate reserve of gold and sterling.

II. *The Gold Standard Reserve should be strengthened:*

(i) There should be no limit fixed to its amount, and profits on coinage should be credited exclusively to it.

(ii) A much larger portion of it should be in actual gold which should be raised to £15,000,000 and thereafer *one-half of the total reserve should be in actual gold.*

(iii) The rupee branch held in India should be abolished, the rupee being handed over to the Paper Currency Reserve in exchange for gold.

(iv). The proper place of the Gold Standard Reserve was London.

III. The Government should undertake to sell bills in *India* on London at the rate of 1*s*. 3 29/32*d*., per rupee whenever called upon to do so (in case of a fall in exchange).

IV. The Paper Currency system should be made more elastic.*

V. *It would not be to India's advantage to encourage an increased use of gold, and Gold Currency was not necessary for India* because:

(*a*) the gold standard had been firmly secured *without a gold currency*, as the history of the last 15 years had proved it;

(*b*) gold in circulation was wasteful;

(*c*) gold in circulation was of little or no use in support of exchange;

(*d*) India should be encouraged to develop economical habits in matters of currency;

(*e*) India neither demanded nor required gold coins as currency.

*These are considered in Book III.

VI. *A gold mint was neither required nor was considered necessary for India*, but if Indian sentiment genuinely demanded it, and the Government of India were prepared to incur the expense, there was no objection to it, provided that the coin minted was the sovereign (or the half-sovereign). It was, pre-eminently, a question in which Indian sentiment should prevail.

If, however, the decision was against the opening of a gold mint, *the notification of the Government's readiness to receive refined gold in exchange for rupees or notes at the Bombay mint should be renewed.*

CHAPTER V.

The War Period

Period I.
First shock of the war upto end of 1916.
Dislocation of trade and business.

Period II.
From end of 1916 to 1919.
Abnormal rise in the rate of exchange and its consequences.

Fate of the recommendations of the Chamberlain Commission.

The recommendations of the Chamberlain Commission were receiving the attention of the authorities but in the meantime War broke out. The Government was, therefore, not able to show its approval of all of them and it was left to the War Period to prove their worth. But action was taken on the following recommendations soon after the War broke out:—

(a) the abolition of the silver branch of the Gold Standard Reserve;

(b) the steps to be taken in case of a fall in exchange;

(c) the giving of facilities for the encashment of notes.

The War Periods.

The history of Indian currency during the War may well be divided into *two* parts:—

Period I. The first period ends with the completion of the year 1916. During this period there was general dislocation of trade and business, as a result of the first shock of the War, with its attendant effects.

Period II. The second period begins with 1917 and ends in 1919. This is the period of revival during which, owing to various causes, the rate of exchange soared very high.

PERIOD I—**From First Shock of the War upto the end of 1916 (Dislocation of trade and business)**

The outbreak of War immediately caused, in India as elsewhere, panic which led to a general dislocation of trade and business of which the principal symptoms were:

The effects of panic.

(a) the weakening of exchange;

(b) withdrawal of Savings Bank deposits;

(c) a demand for the encashment of notes;

(d) a run on Indian gold stocks.

(a) The weakening of exchange was met by the proved expedient of offering drafts in India on London, and between 6th August, 1914, and 28th January, 1915, Reverse Council Bills were sold to the extent of £8,707,000 (the Chamberlain Commission had strongly approved of this measure and recommended it for future emergencies).

The measures taken.

(b) The net withdrawal of savings bank deposits in the first two months of the War amounted to Rs. 6 crores (out of a total of Rs. 24½ crores on 31st July, 1914) and there were subsequent withdrawals upto 2 crores in spite of some recovery. The net withdrawals for 1915-16 amounted *to nearly Rs. 8 crores*. But, continuous payment restored confidence and the tide turned in 1915-16, and since that date deposits continued to increase with the result that the figure at the end of 1918-19 was Rs. $18\frac{3}{4}$ crores. There was also a run on the banks, but this proved of short duration.

(c) Some lack of confidence in the Indian note issue manifested itself at the outbreak of war and resulted *in a net return of currency notes* to the extent of Rs. 10 crores, and there was consequently a substantial fall in the silver held in the Paper Currency Reserve. Thus,

Paper Currency Reserve.

Date.	Amount in rupees.
31st July 1914	33·94 Crores.
31st December 1914	29·87 Crores.

But from the spring of 1915 there was a steady increase of note circulation.

(d) There arose at the end of July, 1914, a keen demand for gold in exchange for notes and between the 1st and 4th August, 1914, the Government of India lost about £1,800,000 of gold. When precautions to discourage the withdrawal of gold proved unavailing, it became necessary on 5th August, 1914, to *suspend the issue of gold to private persons.*

The disquieting symptoms, however, lasted only for a short time. With the return of public confidence, assisted by the readiness of the Government of India to meet all demands, the currency mechanism began to work smoothly.

PART II—From the end of 1916 to 1919. Abnormal rise in the rate of exchange and its consequences.

It was not until the end of 1916 that acute complications arose in the sphere of Indian currency and exchange. These complications were so great and varied, and existed at such a critical time, that rarely has another country passed through such a period of strain in its currency history. It is, therefore, of great importance to trace in details the causes which led to various difficulties in currency matters and the measures taken to overcome them.

SECTION I—Causes of the rise in the rate of exchange.

(a) Favourable balance of trade.

It was well known that the ability of the Government of India to remit to London the funds required for the payment of the Home Charges, and also the successful working of the Indian Currency system, depended on the existence of a substantial balance of trade in India's favour. Even before the War began, India had enjoyed a series of remarkably prosperous years, and during War years that prosperity was continued, although it was slightly lesser than in the pre-war years.

Average of 5 years.	Net exports of merchandise on private account.
1909-10 to 1913-14	£52,237,200
1914-15 to 1918-19	£50,387,700

But, if we take into consideration the three years 1916-17, 1917-18 and 1918-19, when Indian currency difficulties were most acute, we find that the average balance of trade in favour of India was decided greater than that of the three years preceding the war, as the following Table shows :

Average of 3 years.	Net export of merchandise on private account.
1911–12 to 1913–14	£53,429,200
1916–17 to 1918–19	£59,601,100

This was due to the fact that supplies of food-stuffs and raw-materials were required for the use of the Allied Powers and the prices they realised were abnormally high.

There was also a *contraction in imports* concurrently with an increase in exports, because the productive power of the United Kingdom and her Allies was more and more completely absorbed in war industries. *It was only the rise in prices that maintained the value of import trade. Imports from the enemy-countries ceased entirely.*

The large balance of trade indebtedness in India's favour resulted in the strengthening of exchange and *the heavy demand on Government for currency.*

(b) Exceptional disbursements.

Other special causes were at work to intensify this demand. India formed the base of important military operations in Mesopotamia, Persia and East Africa. The Government of India was called upon to provide funds for the payment of British and Indian troops engaged and for the expenses incidental to a modern campaign, and for civil expenditure in occupied territory. In five years this expenditure totalled £240,000,000. In addition to the above, arrangements were made for the financing of purchase in India on behalf of certain dominions and colonies and for provision of rupee credits, amounting to 20 crores in 1917–18 and 1918–19 for American importers of Indian produce.

(c) Heavy decline in imports of precious metals.

These exceptional disbursements created a heavy additional demand for Indian currency. The precious metals play an important part in the adjustment of India's favourable trade balance, but during the war years there was a *heavy decline* in the imports of gold and silver.

Total Imports of Precious Metals into India during

5 years preceding the war ...	£120,242,000
5 years of the war	£ 35,984,000

Several factors contributed to the remarkable decline in the import of precious metals during the latter period.

The first, and by far the most important, factor was *the difficulty of obtaining gold.* The free market in London, on which India had been able to draw in the past, disappeared on the outbreak of war. Restrictions on the export of gold were imposed by belligerent Governments desirous of maintaining their stocks of the metal for war purposes, and India was accordingly only able to obtain very limited quantities.

The dearth of gold created a strong demand for silver of which there was a great shortage of supply. The world's production of silver from 1914 onwards exhibited a marked decline from the production of the preceding years. Approximately three-quarters of the world's production of silver was mined in North America and Mexico, and the key to the shortage was to be found in Mexico due to political disturbances in that country.

The decline in the imports of precious metals *threw the burden of liquidating the favourable trade balance on the Government of India.*

(d) Absorption of Rupees.

That there was heavy absorption of rupees during the war is shown very clearly by Mr. Findlay Shirras. The following table represents the statistics given by him in his book *Indian Finance and Banking* :—

Rupee (including half-rupee) Absorptoin.

(*In lakhs of rupees.*)

Annual average.	Amount.
1909-10 to 1913-14	8,78
1914-15 to 1918-19	22,08

Here we have an *increase of nearly 250 per cent.* above the pre-war average. 'Such a large absorption is wasteful.'

(e) Rise in price of silver.

At the same time, the *world's demand for silver was unusually keen*, particularly for coinage. The coinage of British

Empire alone absorbed nearly 108 million ounces during 1915-18, as against 30·5 million ounces between 1910-13. And there were similar increases in other countries, specially in China. Before 1917 China was a seller of silver, but since that year she became an intensive demander of that metal.

We have seen that war conditions interfered with the normal flow of precious metals into India. The burden, therefore, of liquidating her favourable balance of trade was focussed on the Government of India and took the form of *additional demands for currency*. The efforts made to meet these demands are indicated in the following figures.

During period.	Amount bought by Government of India in *standard ounces*.
April 1904 to March 1907 ...	180,000,000
April 1916 to March 1919 ...	500,000,000

Thus, these large purchases by the Government of India, the decrease in the supplies of silver and the increased demand from other quarters, *led to a rise in the price of silver*.

Year.	Price of silver per *standard ounce* in London Market.
	d.
1915	27¼
1916 (December)	37
1917 (August)	Above 43
1917 (September)	55

Year.	Price of silver per *standard ounce* in London Market.
	d.
Period of control by U.S.A. and British Governments.—September 1917 to May 1919.	Between $47\frac{3}{4}$ and 50
May 1919, (removal of control) ...	58
17th December 1919	78

From the above figures we conclude that the rise in price was continuous, except during the period when the Governments of the United States of America and of Great Britain instituted control over the trade in silver and over its price. In August, 1917, the price exceeded 43*d*. *It is important to remember that this figure, 43d., marks the point at which the exchange value of the rupee at 1s. 4d. was equivalent to its intrinsic value ; so that any rise in price to 43d. and above it necessitated the raising of the exchange value of the rupee*, (as we shall see). Since May, 1919, the rapid rise in price of silver was due to the exceptional demands from China.

(f) Influence of the Dollar-sterling exchange.

There was another factor which tended to raise the price of silver in the London Market. As America had been the principal source of the world's silver supply, the chief payments for that metal had to be made ultimately in that country. Therefore, it had to take account of the London-New York Exchange, and any rise or fall in that exchange would be reflected in the price of silver. Any fall in sterling exchange would result in paying more sterling for a given quantity of silver than before.

Thus, if the exchange value of the rupee is 2*s*., the Secretary of State can buy silver for coinage of rupees without loss at 63*d*. per standard ounce. If now the London-New York Exchange fell, say 10 per cent., the sterling price of silver would rise to over 69*d*., as the direct result of the fall in exchange. Under these circumstances, if silver had to be bought for Indian coinage, the exchange value of the rupee would have to be raised to nearly 2*s*. 2½*d*.

Conclusions.

Hence, as the price of silver rose steadily, the *exchange value of the rupee had to be raised accordingly;* otherwise, *the intrinsic value of the rupee would be greater than its exchange value, and as a consequence, the rupee would disappear from circulation, or would be melted down or exported.*

Besides this, the heavy *purchases of silver* (due to the heavy and continuous requirements for silver coin) and the *rising prices* at which they had to be made, rendered the Pre-War Currency and Exchange system impracticable.

SECTION II—**Measures taken by the Government.**

Various measures were taken by the Government to meet the difficulties stated above.

(a) Control of exchange.

The machinery for regulating exchange had to be changed by force of circumstances.

The Secretary of State had to *put a limit to the sale of Council Drafts in London on India*, because as the demand for them was abnormal and the

Paper Currency Reserve had already fallen, their sales on an abnormal scale would endanger the convertibility of the note issue. But this limitation of the amount of Council Drafts at a time when the demand for remittance to India was exceptionally strong, led to *a divergence* between the market rate of exchange and the rate at which the drafts were sold.

And it was essential that the exports required for war purposes should not be impeded. It was, therefore, found necessary to introduce certain measures of control. The sale of drafts was confined to banks and firms on the "Approved List", which included the chief exchange banks and a few large purchasers of drafts. And these in turn were required to do business on prescribed terms with third parties, and concentrate their resources to financing the export of commodities needed by the Allies for the War.

Thus, the Pre-War system of free and unlimited remittance had to be suspended. But after the conclusion of the Armistice these restrictions were removed, and with the revival of a free market for gold, the old conditions were restored.

(e) Raising the rate of exchange.

As we saw before, the rise in price of silver to 43*d.* per standard ounce and above it, necessitated the raising of the rate of exchange. The following table shows the successive steps of raising the exchange.

Date of introduction.	The minimum rate for immediate telegraphic transfers.	
	S.	*d.*
3rd January 1917	1	4¼
28th August 1917	1	5
12th April 1918	1	6
13th May 1919	1	8
12th August 1919	1	10
15th September 1919 ...	2	0
22nd November 1919 ...	2	2
12th December 1919 ...	2	4

(c) Purchase of silver.

These modifications in the system would not have been effectual in meeting the situation unless special measures had also been taken to *increase the supply of currency.*

The Secretary of State had to purchase silver to meet the enormous demand for rupees, and to reduce competition in buying silver, which would otherwise have raised its price still further, the import of silver into India on private account was prohibited in September, 1917. He bought nearly 32 crores of standard ounces of silver in five years.

But the world's demand was still very heavy and other sources of supply had to be tapped. The Government of the United States of America was approached with a request to release a portion of the silver dollars held in their reserve. The request met with a ready response, and in April, 1918, the United States Congress passed the *Pittman Act*, which authorised the sale to other Governments of silver not exceeding 35 crores of dollars from the dollar reserve. Of this amount the Government of India acquired 20 crores of fine ounces, and this enabled them to tide over a very serious currency crisis.

(d) Protection of silver currency.

Attempts were also made to protect the currency against depletion by export or melting. Accordingly, from 29th June, 1917, the use of silver or gold coin for other than currency purposes was declared illegal; and, from 3rd September, 1917, the export of silver coin or bullion from India was prohibited except under license.

(e) Economy of silver.

The use of silver was also economised by the issue of Rs. 2½ and Re. 1 notes and by the introduction of new two-anna, four-anna and eight-anna nickle coins.

(f) The use of gold.

Efforts were also made to increase the stock of gold, and with this object an ordinance was issued on 29th June, 1917, requiring all gold imported into India to be sold to the Government. And the gold mohur, a 15-rupee coin of the same weight and fineness as the sovereign, was minted at the Bombay Mint as an emergency coin to supplement the stock of sovereigns available for issue during the crisis of 1918.

Gold was also sold to the extent of £ 4,000,000, and sovereigns and gold mohurs to the amount of £ 11,000,000 were issued for the financing of certain crops.

(g) Increase in note circulation.

One of the most prominent features of the currency policy of the Government before the outbreak of the War was the encouragement of the use of notes by giving ample facilities for their encashment. This policy was continued as long as the supply of rupees was adequate. But, as we have seen, the absorption of rupees was abnormally high during the war and the silver balances had fallen very low. The unfavourable war news in March and April 1918 caused a run on the Bombay currency office and in other places. Inconvertibility appeared to be inevitable when the delivery of Pittman silver saved the situation. Facilities for the encashment of notes at district treasuries were withdrawn, and restrictions were placed on the transport of specie within the country. The result was a large substitution of notes for rupees in circulation, as shown in the following table:

Date.	Gross Note circulation in lakhs of rupees.
31st March 1914	66,12
30th March 1919	153,46
30th November 1919 ...	179,67

Thus, the gross circulation of notes increased nearly *three-fold*. But, at the same time, the difficulty of obtaining sufficient quantities of precious metals for coinage, and as a backing for the issue of additional notes, necessitated the *increase in the invested portion of the Paper Currency Reserve* which was raised from Rs. 14 crores to Rs. 120 crores by various ordinances. During certain periods there was in many parts of India a considerable *discount on notes* as high as 19 per cent., because as the rupee was comparatively scarce, it was preferred to notes. But, in the year 1919 the discount tended to disappear, when it was seen that the notes were freely accepted in payment of Government dues.

(4) Financial measures.

Various financial measures were also taken which affected the currency situation indirectly. Apart from measures taken to increase revenue and curtail expenditure, various *War Loans* were floated which yielded Rs. 130 crores, and short-term *Treasury Bills* were issued which brought in nearly Rs. 65 crores. These measures materially assisted towards meeting the heavy demand for remittance to India.

Such were the developments in the Indian exchange and currency system since 1914.

CHAPTER VI.

Post War History.

Period I.	Period II.	Period III.	Period IV.
The year 1919.	January 1920 to September 1920.	*1921 to 1925.*	*1926.*
Section (A) *Rise in price of silver continued.* Section (B) *Report of the Babington-Smith Committee.*	*Consequences of the ratio 2s. a rupee.*	Condition of exchange.	*Report of the Hilton-Young Commission.*

The history of Indian currency and exchange, after the War and coming down to the end of 1926, can, for the sake of clearness, be studied into 5 periods, as given in the above chart. Each period is so selected that it marks out the influence of an outstanding feature.

PERIOD I. —The year 1919.

SECTION A. —Rise in the price of silver continued.

In the last chapter we have already drawn out the important facts in Indian currency history during 1919. We need only summarize them here.

The important features were the following :—

(1) The *Balance of Trade was still highly in favour of India* in spite of the war being over, because although the huge demand for Indian commodities for war purposes was considerably reduced, a new

demand arose in Europe and America for manufacturing peace-time goods. It became increasingly difficult to liquidate this favourable balance.

(2) We also saw how the price of silver steadily rose, till it reached *78d.* per standard ounce on 17th December, 1919, and brought with it extraordinary difficulties in the currency system, the chief being endangering the convertibility of the note issue which was only averted by the Pittman silver.

(3) The influence of the Dollar-Sterling Exchange was also made clear. As sterling fell in terms of the dollar, the price of gold rose to the same extent, and the rate of exchange fluctuated.

SECTION B. —**Report of the Babington-Smith Committee.**

All the difficulties consequent on the unprecedented rise in the price of silver, and specially the one of securing the convertibility of note issue, led to the appointment of a committee to consider the best means of overcoming them. Accordingly, in May, 1919, the Babington-Smith Committee was appointed. The Committee consisted of eleven members of which Mr. Dadiba. M. Dalal, the only Indian member, wrote a minority report, because he did not concur with the views of his colleagues on vital currency principles.

Terms of Reference.

The report was submitted in December, 1919. The terms of reference were as follows :—

I. To examine the effect of the war on the Indian exchange and currency system and practice, and upon the position of the note issue, and to consider if any modifications were necessary.

II. And to make recommendations on them and generally as to the policy that should be pursued with a view to meeting the requirements of trade, to maintaining a satisfactory monetary circulation, and *'to ensuring a stable Gold Exchange Standard.'*

Thus, the last phase of the reference 'to ensuring a stable Gold Exchange Standard,' *precluded the Committee from considering or recommending any other standard for Indian currency.*

Conclusions drawn from war history.

The conclusions which the Committee drew from the history of the Indian currency system during the war were the following :—

(1) The system built up since 1893 worked well, and was beneficial to India. It had supplied suitable media for internal circulation, provided means for the settlement of the balance of trade, secured stability between the rupee and sterling, and prevented the fall in the value of the rupee below 1*s*. 4*d*.

(2) "*But the system was not proof against a great rise in the value of silver.* In framing it this contingency had not been taken into account." Consequently, when the unexpected happened, it threw the currency system into extreme difficulties and dangers.

The inherent weakness of the system.

Particular attention of the student is drawn to this fact. It was the inherent weakness of the system evolved after 1893 that, while it made provision against a fall in the value of the rupee below 1*s*. 4*d*., it made no provision against *a rise in the value of the rupee above 1s. 4d. consequent on a rise in the price of silver. The rupee melting-point, in short, was not considered.*

Recommendations of the Majority.

Importance of stability of exchange.

Before coming to the stabilisation of the rupee the Majority examined in what respects exchange stability was important. "Our conclusion," they wrote, "is that, for the current operations of trade, *stability is an important facility rather than an essential condition*. There are many instances, including that of India herself before the closing of mints, which show *that trade has flourished, and can flourish, with a fluctuating exchange*. The conditions are somewhat more speculative, but the difficulties which may arise are not insuperable, and the banks are not slow to supply machinery which enables the merchant to cover his risks."

And yet they observed that stability of the rupee was of great importance for India, and that the rupee should be stabilised at as early a date as possible. The reasons given were the following :—

(1) that stability is a necessary condition for the free investment of external capital in India, as well as for the protection of capital already invested;

(2) that a stable exchange facilitates the free movement of funds to and from India, thus assisting commercial finance and tending to avert temporary stringencies;

(3) that whatever the evils and inconveniences of instability may be, they are increased if the movements are brought about *not by the automatic action of economic causes, but by administrative acts*. The commercial community are prepared to deal with fluctuations of exchange resulting from economic causes; but they feel that "if official action intervenes to interpret the play of natural forces and to give

effect to them, an element of uncertainty is introduced which is beyond their reckoning." In short, an automatic system, which did not depend upon official action, was greatly to be preferred;

(4) that a stable level of exchange gives the most healthy condition for production and trade.

I. The ratio should be 2s. Gold.

The Majority recommended that the rupee should *be fixed at 2s. gold*. It is important to know the grounds on which they based their decision.

(A) The price of silver.

The most important factor they considered was the price of silver. From the evidence which they collected they believed that the *price of silver would remain high for some years*, as the world's demand for silver was likely to continue on a large scale. Accordingly they estimated that, keeping a safe margin, if the price of silver were 62·9*d*. (gold) per standard ounce (137·8 cents per fine ounce in America), then the rupee's bullion price would be equal to 1*s*. 11·36*d*. (gold). If we add to this the cost of making the rupee, the total would be 2*s*. *approximately*.

The Majority believed that, if the exchange value of the rupee were fixed at a figure not lower than this, there were reasons to believe that the rupee could be established as a token coin.

(B) Effects of High Exchange.

The Majority also considered the more general economic effects of a high exchange.

(1) Effect on the level of prices in India.

They concluded that, *but for the high rate of exchange, the level of prices in India would have risen still further*, and adversely affected the population.

They admitted that the exceptional conditions, under which trade was conducted during the war, made it impossible to measure precisely the extent to which the high exchange influenced rise in prices. There were, for instance, factors such as Government control over the movement and prices of food grains in India and restrictions on finance and freight, which also prevented prices rising.

But they stated that, in accordance with accepted economic theory, Indian prices would, but for the rise in exchange, have been still further enhanced. This theory was explained as follows:—

(i) Taking the *case of imported commodities*, we would find that the sterling price at which the merchant could lay down goods in India would be determined by the cost of production, transport, and other charges. If the exchange value of the rupee rose, this sterling cost would be represented by a smaller number of rupees, and the goods could be sold at a lower rupee price.

(ii) Again, taking the case of exports such as wheat, (whose price outside India was determined by world-wide conditions of production and consumption), we would find that the sterling price, which could be obtained for a given quantity of it, would, if exchange rose, be represented by a smaller number of rupees, and the price which the grower would receive must necessarily be lower than before.

This would mean a heavy loss to the agriculturist. But the Majority considered that, as the world's shortage of food-stuffs and raw materials was likely to continue for some time, the demand for Indian produce would be ensured. Besides, the general rise of prices in countries importing from India should enable the Indian producer to obtain a satisfactory rupee price for his produce in spite of the high exchange.

But these considerations would not apply to products which are grown almost entirely for *internal consumption*, *e.g.*, food grains, such as, jawar and bajra. Nor would they be applicable in the case of jute, which enjoys a practical monopoly. It was not, therefore, desirable to restore a low level of exchange, for it would tend to augment prices generally and to aggravate the danger of social and economic discontent.

(2) Effect on Indian Trade.

A high exchange stimulates imports and checks exports, but they stated that these effects were transitory, and that they were no longer operative when wages and other elements of cost had adjusted themselves to the new level of exchange.

Besides, Indian trade was prosperous and was likely to maintain this prosperity for some years. The world shortage of raw materials and food stuffs was likely to ensure a continuing demand for Indian produce during the period necessary for complete adjustment, and this was likely to give him a satisfactory rupee price, because of the rise in general prices in countries importing from India.

Moreover, high exchange would bring to the producer various advantages. It would tend to keep down the cost of imported stores and machinery as measured in rupees; and if it would exercise a check on the rise of prices, it would reduce the cost of living in India and consequently put a check on the rise of wages.

Thus, they concluded that Indian trade was not likely to suffer any permanent injury from the fixing of exchange at a high level.

But the Majority gave *one qualification* to this statement. *It was that prices should remain at a high level for a considerable time*, and that any return to lower level would be gradual. But if, on the contrary, a rapid fall in world prices were to take place, the cost of production in India would fail to adjust itself, with equal rapidity, to the lower level of prices, Indian exports would suffer, and the rate of exchange could not be maintained.

(3) Effect on Indian industrial development.

A high rate of exchange would temporarily stimulate competitive imports into India, especially from countries where the cost of production was low. But even during the period which may elapse before the adjustment of prices and other conditions to the new level was complete, they considered that India was not likely to be adversely affected because the cost of production in the exporting countries of Europe and America had greatly increased. Moreover, a high exchange would tend to bring to India the advantage of a low cost for wages and raw-materials and for imported articles that enter into cost. Therefore, the development of Indian industry would not be seriously hampered by a high rate of exchange.

(4) Effect on Home charges.

They also pointed out an incidental advantage in fixing the exchange at a high level. At 1*s*. 4*d*. exchange to remit £25,000,000 a year, the rupee cost would be 37½ crores; but, if the same were to be remitted at 2*s*. exchange, the rupee cost would be 25 crores, *i. e.* a saving of Rs. 12½ crores.

On the other hand, there would be a loss involved in the revaluation in rupees of the sterling investment and the gold with the Secretary of State. This loss would amount to 38·4 crores.

But, if the whole of the amount saved in respect of remitting the Home Charges were utilised for the purpose of meeting this loss, it could be recouped in 3 years. And thereafter it would enable the Indian Treasury to do without additional taxation of Rs. 12½ crores every year.

II. The rupee should be linked to gold and not to sterling.

The second main recommendation of the Majority was with regard to the manner in which the exchange should be fixed. Should it be linked to sterling (its pre-war relation) or to gold? They recommended that the rupee should be linked to gold and not to sterling.

The reasons given.

(1) Before the war the convertibility of sterling (paper) into gold in England was complete. Gold coins were in circulation and sterling and Bank Notes could be exchanged without difficulty with gold. It was, therefore, unnecessary, in considering the problems of Indian exchange, to make any distinction between the two. But since the War the situation had been different. The gold coin was no longer in circulation and had appreciated in terms of sterling. The sovereign (gold) was at a premium of 28 per cent. and £1 sterling (paper) was at a discount of 22 per cent. on 17th December,

1919. Under these circumstances, and specially because sterling was depreciating, it would be unwise to fix the rupee in relation to sterling. Until sterling became again equivalent to gold, *the rupee-sterling exchange would fluctuate, in the same manner as the dollar-sterling exchange*, and far from making the rupee stable, it would make it fluctuating.

(2) If the rupee were linked to sterling, the exchange value of the rupee to be fixed in sterling would have to be a *higher one* than in gold, because sterling had depreciated very much. This might not be regarded as an immediate disadvantage. But in the future, if sterling were to recover its value and become again equivalent to gold, the sterling value for the rupee might *be found to be* high (since the value would have increased in relation to gold). And if it were to be reduced, the *reduction would be too heavy* and would be injurious to commerce and trade. If, on the other hand, the value were fixed in relation to gold, it could be fixed safely at a lower figure.

(3) If the relation of rupee to sterling were fixed, while sterling varied in relation to gold, the rupee would vary with gold. But if the rupee and the sovereign were both to remain unlimited legal tender in India, as it was thought essential, it was necessary that *their relation should be fixed*, because two coins cannot remain in circulation as unlimited legal tender and at the same time stand in a variable relation to one another.

(4) The Majority also considered it very desirable to permit the free export and import of gold bullion and coin and to issue gold coin in India for

an equal weight of gold bullion subject to an appropriate coinage charge. This could be facilitated by linking the rupee to gold.

Summary of Recommendations.

We now summarize the main conclusions and recommendations of the Majority.

(1) It was desirable to *restore stability to the rupee* and to *re-establish the automatic working of the Indian currency system* (The Gold Exchange Standard).

(2) The exchange value of the rupee should be fixed in terms of *gold* rather than in sterling.

(3) The stable relation to be established between the rupee and gold should be at *the rate of Rs. 10 to one sovereign*, or, in other words, at the rate of one rupee for 11·30016 grains of fine gold, both for foreign exchange and for internal circulation.

(4) The obligation of the Government to give rupees for sovereigns should be withdrawn.

(5) The import and export of gold to and from India should be free from Government control.

(6) The prohibition on the import of silver should be removed, but that on the export of silver should be retained for the present with a view to the protection of silver from depletion by export.

Other recommendations were with regard to the constitution of the Gold Standard Reserve and the Paper Currency Reserve and the sale of the Council Bills and Reverse Councils.

(*a*) As regards the *Gold Standard Reserve* :—

(1) that no limit can yet be fixed to its amount ;

(2) that it should contain a considerable proportion of gold;

(3) that the remainder should be kept in securities issued by Governments within the British Empire (other than the Government of India) and having a fixed date of maturity of not more than 12 months ;

(4) that a proportion of gold, not exceeding one half, should be held in India.

(*b*) As regards *Council Bills and Reverse Councils* :—

(1) that Council Drafts, although sold for providing for Home-Charges could also be sold by the Secretary of State in excess of his immediate requirements, *when a trade demand for them exists*, by competitive tender;

(2) that during periods of exchange weakness the Government of India should be authorised to announce, without previous reference to the Secretary of State, their readiness to sell weekly a stated amount of Reverse Councils.

The recommendations with regard to the Paper Currency Reserve will be dealt with in the Chapter on Indian Paper Currency.

Conclusions of the Minority:

(Mr. Dadiba. Merwanji. Dalal.)

Mr. Dalal entirely dissociated himself from the recommendations of his colleagues. He, in his Minority report, answered in details the various arguments of his colleagues. We shall summarize here those of his views which have an important bearing on future history of Indian currency.

(a) Sovereign—the Money standard.

He took the view that the legally established money standard was the *Sovereign with rupees definitely related to the sovereign at the rate of 15 : 1.* "In contradistinction to this legally established standard," he stated, "the Gold Exchange Standard has no legal validity. It has not been clearly and explicitly defined. The authorities who conduct it *exercise the widest discretion* in its regulation, but hitherto have been careful to respect the legally constituted ratio between the rupee and the sovereign. The policy pursued is one which has persistently ignored the essential safeguards of a gold standard, and *particularly the safeguard, of limiting the issue of token coins.* The *endless issue of token coins, much in excess of what is needed for internal exchange purposes*, amounts to a form of taxation on the money of the public. It is this circumstance that is to a large extent responsible for the extraordinary demands for gold and sovereigns in India. It virtually compels the Indian people to seek full value for the token money, with which they have been over-supplied for ordinary currency purposes, and is thus largely responsible for the hoarding of gold of which so much is heard..... It has by mere executive action changed the legally established gold standard into Gold Exchange Standard making the maintenance of exchange the object to be attained in place of the provision of gold money with a limited token money."

Moreover, the system broke down at a time when India enjoyed a large measure of prosperity.

(b) Rise in price of silver was entirely artificial.

He was unable to fall in with the idea that the rise in price of silver afforded solid grounds for raising the rate of exchange. "I contend that the price of silver has been artificially forced to its high level." The reasons given were the following :—

(a) *The rise in price of silver could have been prevented by removing the embargo on exports of silver from India after the war ended*, and it was after the war that the great rise took place. India could easily have spared silver for export ; such exports would have been profitable to her, and they would have prevented the great rise in price. The price *78d.* per standard ounce was made possible only by the prohibition of exports of silver from India and by the raising of the rate of exchange, which had the effect of lowering the rupee value of all silver held there and making exports unprofitable.

It was because India was made a potential buyer instead of a seller that the silver markets were inflamed and the price was raised.

(b) Coupled with this embargo on exports of silver from India was another fact. The Pittman Act compelled the Government of the United States to replace all the silver dollars which she had given to other countries, and until that was done, to go on buying American silver at 1 dollar per fine ounce. As this process of replacement was likely to continue for some years (as the silver dollars withdrawn under the Act represented between twice and three times the normal American production), the production of American silver was assured of a market. Under the circumstances any probability of fresh demands for silver from India and China was expected to raise the price of silver. Had India been allowed to sell silver, its rise in price would have been prevented. In short, the high price of silver was to be regarded as entirely artificial.

(c) The Standard Ratio 1*s*. 4*d*. a rupee should not be altered.

He was of opinion that there was no justification whatsoever for raising the ratio because—

(a) the high world price of silver was wholly artificial and thoroughly inflated and could have been prevented by removing the embargo on the export of silver from India.

Even if the embargo were not removed, there was no occasion to raise the ratio. India did not require additional supplies of rupees. She could carry on for many years without any new silver coinage.

(i) The only alteration required would have been to *stop the coinage of rupees, and that would have occurred automatically by reason of the loss coinage would involve.*

(ii) At the same time, *the sale of rupee bills in London by Government in excess of their own Treasury requirements should have been stopped*, and the balance of trade left to be adjusted by other means than silver. Rather than give up the sale of rupee bills (and thus remove the necessity of further silver coinage in India), the Government unnecessarily raised the rate of exchange.

(b) There was no advantage in making the rate of exchange follow the price of silver. One of the advantages claimed in former years for issuing rupees instead of sovereigns was that it was economical. The rise in price of silver took away the advantage. "If silver has to be bought at present prices (78*d.*) and coined into rupees at the present rate of exchange, there is no economy of any consequence in using silver instead of gold."

The world-wide embargo on the exports of gold was removed and the United States of America became a free market for gold on 9th June, 1919, and the gold production of South Africa became available in London on 18th July, 1919; there was, therefore, absolutely no justification for raising the rate of exchange.

(c) "Raising the rate would have disastrous consequences to India and to the people of India. They must seriously disturb the existing relation between creditor and debtor. They will cause dislocation and set-back to several Indian industries and vast continuous losses on the exporters of Indian produce. There is a danger of India's balance of trade turning against her and so checking her prosperity. And it should be remembered that between 100 and

200 millions of people live on the brink of starvation, and a great permanent change in the rate of exchange must ultimately bring intense distress to millions of the helpless masses." It would also cause a colossal loss to the Indian public who held about 50,000,000 sovereigns, and enormous loss to India by the revaluation of the sterling securities and gold held in the reserves.

PERIOD II—The year 1920.

Consequences of the 2s. rupee ratio.

The recommendations of the Babington-Smith Committee were accepted by the Secretary of State, and various notifications were issued on 2nd February 1920, along with the publication of the report.

The action taken on the report.

The notifications were as follows:—

(1) The acquisition rate for gold imported under license into India would be fixed at Rs. 10 per sovereign or one rupee for 11·30016 grains of fine gold;

(2) Council drafts and Telegraphic Transfers would be offered for sale weekly by competitive tenders with no fixed minimum rate; and that Telegraphic Transfers would be offered in India when required at a rate based on the sterling equivalent of the price of 11·30016 grains of fine gold as measured by the prevailing sterling-dollar exchange, minus a reduction for the cost of remitting gold;

(3) the obligation on the part of the Government to give rupees in exchange for sovereign and half-sovereign at the rate of Rs. 10 and Rs. 5 respectively was cancelled;

(4) prohibition on the import of silver and the duty on its imports were abolished;

(5) the prohibition of melting of gold and silver coins was removed.

Influence of the dollar-sterling exchange.

During the War, as we have seen, the British Government, in order to control the price of silver, had "pegged" the dollar-sterling exchange at 4·76 7/10 dollars equal to 1 £ sterling. The control on the exchange was removed in March, 1919, and the free market for gold was established.

The notification that bills would be sold in India subject to *the price of gold being regulated by the sterling-dollar exchange* had great influence on Indian exchange at this time. It may at first be asked, why was this complication introduced? It was because the United States of America was the country which was the real source of world's supply for gold and silver. Besides, its standard coin was at *par* with gold, being a creditor country to England and other countries, and it had a free market for gold. As England had to make payments of enormous sums to the United States of America for the loans borrowed, the *price of gold in London had to take account of the sterling-dollar exchange.* If sterling fell in relation to the dollar owing to adverse circumstances, more sterling would have to be paid for buying a given quantity of gold in America than before. The sterling price of gold in London would, therefore, rise and the gold sovereign would fetch more shillings than before. Therefore, if one sovereign is equal to Rs. 10, each rupee would buy more shillings than before, *i.e.*, the rupee-sterling exchange would rise accordingly. *If the sterling-dollar exchange fell, the rupee-sterling exchange would rise.*

The sale of Reverse Councils.

Even when the notification was issued with regard to the two-shilling ratio, the market price of silver was higher than 2 shilling gold. This was an opportunity for a financier to wait but India Office would not do so. The Government announced its intention to maintain the rate by the sale of Reverse Councils on London at market rate. This announcement resulted in an unprecedented demand for them.

(i) Exporters discount the Bills.

On 2nd February the American cross-rate fell to 3·65, and the rupee-sterling exchange rose accordingly. But the Indian exporters, fearing that further fall in cross-rate would occur, thought it wise to sell off their bills to prevent further loss to themselves. So heavy was the demand for discounting the Bills that the exchange rose to *2s. 8½d.* within three days of the announcement of the *2s.* ratio, and at one time it soared as high as *2s. 11d.* But within a few days a further fall took place in the sterling-dollar exchange, and under the same influence the exchange jumped up to *2s. 10¼d. on February 11th.* But after this date the tide of the exporters anxious to sell the bills ebbed.

(b) Rush for remittances to England.

As the rate of exchange steadily rose, there arose a keen demand for remittances to England, as it was very cheap to do so. The demand came from genuine Indian importers for Reverse Councils. Foreign businessmen and firms in India found this the most profitable time for remitting their profits to England. The huge War profits also led to a boom in the formation of Joint Stock Companies. And those companies, which had placed orders in England for machinery, now remitted in advance the payment for them. Lastly, there were those speculators who remitted their money to England in the hope of bringing it back after exchange fell sufficiently thereby making large profits.

So great was the demand for Reverse Councils and such was the speculation indulged in them, that there arose *a difference between the Reverse Council rate and the market rate aud the money market was completely disorganized.* The market rate began to fall, but the Reverse Council rate remained high for some time, and this in return created gigantic speculation.

(c) Adverse Balance of Trade June, 1920.

But the most important cause, which aggravated the demand for Reverse Councils and kept the market rate of exchange lower than the rate for them, was the adverse balance of trade. From January to June 1920 the favourable trade balance was diminishing step by step. The value of imports was increasing considerably, whereas the value of exports was diminishing. And in June the balance of trade became definitely *unfavourable* to India, and there was an excess of imports over exports to the extent of Rs. 2·83 lakhs.

The reasons for this were not far to seek. The Indian export trade was already weak. The great consuming markets were already glutted with Indian produce, nor had some European countries the buying power to purchase our commodities sufficiently. The rains of 1920 had failed and the embargo on food stuffs could not be removed. Besides, the high exchange gave a powerful stimulus to import trade; and immense quantities of manufactured goods, specially textiles, began to come forward. At this time Japan was the largest buyer of Indian cotton, but a commercial crisis in that country not merely stopped Japanese merchants from buying it, but they resold cotton in the Indian market.

This adverse balance continued throughout the rest of the year and made the stabilisation of the exchange at 2*s*. gold an impossible problem.

The result of the adverse balance of trade was a *heavy fall in exchange*. On 1st June it stood at 2*s*. 1¼*d*., and it began to fall until it reached 1*s*. 8¼*d*. by the end of the month; then there was some recovery after which it fluctuated round 1*s*. 10*d*. upto September.

All attempts to raise exchange fail.

Strenuous efforts were made by the Government to strengthen and to prevent the exchange from falling.

(1) They sold £ 2 millions of Reverse Councils a week, then £ 5 millions, and ultimately dropped down to a steady 1 million*. The lowest tender offered was of Rs. 50 lakhs, but this aggravated the evil, and "exchange became a tool of wealthy speculators and exchange banks". And the wider became the margin of difference between the market rate of exchange and the Reverse Council rate, the more intense became the speculation.

*The Indian Year Book, 1922.

(2) Being unsuccessful in holding the rate at *2s.* gold (on the basis of the sterling-dollar exchange) the Government tried to maintain it at *2s. sterling*, leaving the gap between sterling and gold to be closed when the dollar-sterling became par. Immediate Telegraphic Transfers were sold from this date at 1s. 11 19/32*d.* — this figure represented the rate which would ultimately hold when sterling once more returned to parity with gold.

This attempt also failed, because the natural forces of trade were too strong for any artificial action.

(3) In order also to maintain the exchange at *2s.* gold, the Government continued to sell considerable quantities of gold in India every fortnight. They sold 53 millions of gold, but this did not affect the premium on gold. The object was to reduce the price of gold relatively to the rupee. But attempt to do so failed, and gold at certain times actually left India for liquidating the adverse balance.

(4) The Government of India at this period tried their utmost to *contract currency* with a view to bringing up the exchange value of the rupee. When the Reverse Councils were bought by the public, they were paid for in currency notes and silver rupees. *These currency notes were withdrawn from circulation and cancelled.* The sales of Reverse Councils were met by the sale of securities in the Paper Currency Reserve, because the Treasury Balance held by the Secretary of State proved insufficient for this purpose. Hence to the extent that the Currency Notes were cancelled, *the Paper Currency Reserve was reduced.* Thus, the gross cir-

culation which stood over 183 crores by the middle of January, 1920, was steadily withdrawn till it was reduced to 158 crores by the middle of September.

Withdrawal of support; September, 1920.

All attempts having failed to strengthen exchange, the Government suspended entirely the sales of Reverse Councils at the end of September. "All support was withdrawn, therefore, from exchange which was left to the tender mercies of supply and demand."* As soon as the Government withdrew their support, the exchange at once fell from 1*s.* 10*d.* to 1*s.* 8*d.*, and then continued to fall till it reached nearly 1*s.* 5*d.* in December.

The sacrifice involved.

The measures taken to bring up the exchange to 2*s.* had disastrous effects on Indian exchequer and on Indian trade.

(a) In the first place, the Reverse Councils were paid in London out of the sterling securities and Treasury Bills belonging to the Paper Currency Reserve. These securities and bills were bought at the rate of Rs. 15= £1. But they were sold to pay for the Reverse Bills at the rate of £ 1= Rs. 10 and sometimes Rs. 8 and even Rs. 7.

The difference was the heavy loss borne by the Indian Treasury. The total amount of Reverse Bills sold was £55,382,000. This meant loss of more than Rs. 40 crores to the Indian exchequer, and that too at a time of adverse trade balance.

(b) The effects on Indian business were acute. "Exporters found themselves loaded with produce for which there was no foreign demand; importers found themselves loaded with imported goods,

*Jevons: *Money, Banking and Exchange in India.*

bought in the expectation of the continuance of a high rate of exchange, delivered when it had fallen one and four pence from the highest point reached. Immense losses were incurred by importers, who, when the year closed, were struggling to liquidate their stocks in almost desperate conditions."*

(c) Besides, deflation of currency brought the importers into serious difficulties. In the first place, it made the money market tight and raised the bank rate of interest on loanable money; and in the second place, it tended to bring down the general level of prices. In both ways, therefore, businessmen were hard hit, and were compelled to sell off their stocks at ruinous prices. Thus, in the words of Sir Stanley Reed, "a policy which was avowedly adopted to secure fixity of exchange produced the greatest fluctuations in the exchanges of a solvent country and widespread disturbance of trade, heavy losses to the Government, and brought hundreds of big traders to the verge of bankruptcy."

Other measures in 1920.

Even during this period of confusion the Government of India passed legislation to give effect to the recommendations of the Babington-Smith Committee.

(*a*) On 21st June, 1920, an Ordinance was issued by which the sovereign and the half-sovereign ceased to be legal tender in India, but a notice was given to the effect that, if they were tendered at the Government Offices within period of 21 days, the Government would accept them at the rate of Rs. 15 and Rs. 7½ respectively. Sovereigns amounting to £2½ millions were thus tendered by the public. Restrictions on the import of gold bullion and foreign gold coins were withdrawn after this period was over.

(*b*) But in September, 1920, the Indian Coinage Amendment Act was passed which made the sovereign and the half-sovereign legal tender in India for Rs. 10 and Rs. 5 respectively.

*The Indian Year Book, 1922.

(c) Then again, the Paper Currency Amendment Act was passed in October, 1920, which was meant to put into action the recommendations of the Committee with regard to Paper Currency. We shall deal with it in the Chapter on Paper Currency.

PERIOD III—1921-1925.

Trade condition during the year.

During the year 1921–1922, the serious depression in trade continued. "The year 1921-22 will rank as a classical example of what trade-cycle economists characterise as the readjustment period."* The period of readjustment, after the boom that followed the War, began with 1921, when the period of liquidation set in. Europe was still unable to buy Indian commodities in sufficient quantities and the balance of trade was *against* India. The chief factors responsible for this were the falling tendency of prices and the instability of exchange.

But in 1922 the stagnation in exports disappeared and the balance of trade became favourable to India. The rains were ample and good harvests were reaped in almost all parts of the country and the exportable surpluses of food stuffs and raw materials were considerable. But the real factor which changed the tide was the purchasing power of European countries, which increased after the notable improvements in various industries. This prosperity in India was reflected in the import of treasures to the extent of Rs. 59 crores as against Rs. 13 crores, which was the total amount of the two preceding years.

The improvement in India's trade and commerce was maintained during the following years,

* The Indian Year Book, 1923.

and there was steady progress towards more stable economic conditions. This improvement was as follows :—

Year.	Exports and Imports of Merchandise on private account (in *crores* of rupees.)			Total Net Imports of treasure on private account (in *crores* of rupees.)
	Exports.	Imports.	Net Exports.	
1920	258	335	− 77	1
1921	245	266	− 21	12
1922	314	224	90	59
1923	362	217	145	47
1924	398	243	155	94
1925	375	226	149	62

Exchange during the Period.

We saw how, on the 28th September, 1920, the Government abandoned the attempt to maintain exchange at 2*s*. sterling. Left alone, the rupee began to find its own natural level, subject to the laws of demand and supply (see table at the end of the Period). The price of silver was at this time falling rapidly. And under the combined influence of adverse balance of trade and fall in price of silver, the exchange fell steadily until in December, 1921, it reached 1*s*. 3$\frac{7}{8}$*d*. sterling or 1*s*. 1 5/32*d*. gold. The Government of India were unable to contract currency sufficiently to bring up the exchange.

Attempts to bring exchange up to 1*s*. 4*d*. sterling.

But during 1922 the balance of trade was favourable to India and the Government took various measures within their power to prevent the rupee from falling below 1*s*. 4*d*. sterling.

(1) In the first place, increase in taxation and retrenchment were resorted to in order to balance the Budget.

(2) At the same time the Secretary of State stopped the sale of Council Drafts in London, and thereby prevented the additions of rupees which would have been made to circulation in India. He met his requirements by borrowings in London and by receiving from the Imperial Government some part of the amount which it owed to the Government of India for expenditure incurred by the latter on its behalf.

(3) Then, the currency was also deflated throughout the year.* The methods employed were the *sale of Indian Securities in the Reserve and the corresponding cancellation of notes that came in, and applying* the interest on securities in the reserve to the deflation of note issue.

*It would interest the reader to know the various ways of deflating or contracting currency given by Professor H. S. Jevons in his book *The Future of Exchange and Indian Currency* (pages 190–193). He gives 3 principal ways of contraction : (1) By the sale of reverse councils and cancellation of currency notes equivalent to the price paid for them. (2) By realisation of the metallic portion of the reserve. The operation is this. A particular number of silver coins should be melted down or sold and the loss arising to be made up from the sale of gold in the Paper Currency Reserve which would bring a profit. (3) By sale of rupee securities in the reserve and notes to be cancelled off to the value of the price realised by the sale of the securities. Or a loan may be issued and the proceeds may be used for the redemption of the rupee securities and cancellation of notes.

Each of these methods was pursued by the Government of India as occasion required.

Rupee reaches 1s 4d. sterling (January, 1923).

By the combined effect of these measures the rupee reached 1*s.* 4*d.* sterling in January, 1923, its pre-war level. And, since the balance of trade was also favourable to India, there was a demand from some quarters that the fictitious ratio of two-shillings may be abolished and the pre-war ratio of 1*s.* 4*d.* sterling established. But the Government considered such a step hazardous, as it was not possible to forecast accurately the future of sterling.*

Deflation of currency and stringency in money market.

During the year 1923, stringency of money was generally felt in the Indian money market and the Government had to take power to issue *emergency currency* to the extent of Rs. 12 crores *against commercial bills* endorsed by the Imperial Bank. Besides, they had to purchase sterling in *India* and issue fresh currency against it. "To do something to mitigate stringency in the money market, we have remitted no less than 12 crores (sterling) to London against issues of Paper Currency in India."† Thus, in all Rs. 24 crores of emergency paper currency was issued. But even these measures were not adequate enough to satisfy the needs of trade. This was proved by the fact that the rate of Imperial Bank of India stood at 9 per cent. from February to April, 1924.

*"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." Sir Basil Blackett, in his speech before the Associated Chambers of Commerce, on 5th December, 1923.

†Budget speech of the Finance Member on 29th February, 1924.

All these factors would lead one to conclude that the *expansion of currency* to meet trade requirements was *inadequate.* In other words, there *was relative contraction of currency or deflation* of currency. Thus, suppose at a given time trade requires an addition of Rs. 30 crores to circulation, but Rs. 24 crores only are issued, there would be deflation to the amount of Rs. 8 crores or relative contraction to that extent. Avoiding the necessary expansion of currency is equivalent to contraction of currency in its effects.*

Rupee reaches 1*s*. 4*d*. gold (or 1*s*. 6*d*. sterling) in October 1924.

The rupee rose to 1*s*. 6*d*. Sterling or 1*s*. 4*d*. gold in October, 1924. The action taken by the Government of India since this date was *directed towards preventing the rise of the rupee above 1s. 6d.* sterling. The reason for taking action at this point has been given by the Hon. Mr. McWatters, Finance Secretary to the Government of India. "The position then arose that Government had before them a strong representation from the Bengal Chamber of Commerce which pointed out that the commercial community were much exercised as to the possible results of the *next busy season.* They saw *no chance of avoiding extreme fluctuations in exchange* unless some definite action was taken by Government, and the Government at that time came to the view that any substantial rise in

* In his answer to Question 7, put by the Chairman of the Royal Commission on Indian Currency and Finance, 1926, Sir Basil Blackett said: "The policy uptil August, 1923, was to encourage the natural tendency to a rise by effecting some actual contraction of the currency which had been very considerably redundant after the War. After August, 1923, it was to check the tendency to further rise by making some additions to the Currency."

exchange above 1*s.* 6*d.*—with possible fluctuations up and down—might be extremely harmful."*

Sterling reaches gold parity; April, 1925.

In April, 1925, sterling reached gold parity, *i.e.*, 1*s.* 6*d.* sterling became equivalent 1*s.* 6*d.* gold. And the policy of the Government since that date may be translated into *preventing the rise of the rupee above 1s. 6d. gold.* Since this date, the exchange value *above* the rupee remained practically steady at this figure (see table on page 134). Whether the exchange was kept at 1*s.* 6*d.*, during the coming year, by being prevented from falling below that figure by Government action, or natural forces kept it at that point, we shall see in the Report of the Royal Commission on Currency and Finance, 1926. In short, we shall know whether it was a '*De facto*' ratio or a '*Fait Accompli*'.

* In his answer to Q. 693 before the Royal Commission on Indian Currency and Finance, 1926.

Rate of exchange from Calcutta on London on the 1st of the month.

Year.	Sterling.		Gold.		
	S.	*d.*	*S.*	*d.*	
1920—					
January ...	2	$3\frac{7}{8}$	1	10	
December ...	1	6 3/8	1	1 3/16	
1921—					
January ...	1	$5\frac{1}{4}$	1	0 15/32	
July	1	3 5/6	0	11 23/32	
December ...	1	$3\frac{7}{8}$	1	1 5/32	
1922—					
January ...	1	3 15/16	1	1 25/32	
December ...	1	3 31/32	1	2 27/32	
1923—					
January ...	1	4 1/32	1	3 9/32	*Rupee reaches pre-war level.*
December ...	1	5 7/32	1	$3\frac{5}{8}$	
1924—					
January ...	1	5 3/32	1	3 1/16	
October ...	1	5 23/32	1	$4\frac{1}{4}$	*Rupee reaches 1 S. 4 d. gold.*
December ...	1	6 1/32	1	5 3/16	
1925—					
January ...	1	6 1/16	1	5 21/32	
April	1	5 27/32	1	5 17/32	*Sterling reaches* gold parity.
December ...	1	6 5/32	Nearly the same.		
1926—					
January ...	1	6 5/32	Do.		
April	1	$5\frac{7}{8}$	Do.		
December ...	1	5 3/4	Do.		

PERIOD IV—The Hilton-Young Commission's Report, 1926

A Royal Commission on Indian Currency and Finance was appointed under the Chairmanship of Commander Edward Hilton Young. Of the eleven members of the Commission, *Sir Purshotamdas Thakurdas*, a distinguished Bombay merchant and Financier, wrote a minute of dissent.

Terms of reference.

The terms of reference to the Commission were—

(*a*) to examine and report on the Indian exchange and currency system and practice already existing ; and

(*b*) to consider whether any modifications were desirable in the interests of India ; and

(*c*) to make recommendations.

(A) The Weaknesses of the existing system.

They analysed the existing state of affairs both in its economic aspect, which is that of the standard of currency, and in its administrative aspect, which is that of the authority to control the currency.

(1) No automatic working of the standard.

The first great weakness they point out is that " the automatic working of the exchange standard is not adequately provided for in India and never has been so."

They give the following reasons for this :—

(a) that there is no *statutory obligation* to preserve the stability of the gold value of the rupee. This stability is at present based on nothing substantial than the policy of the Government, and that policy can be found defined in no notification or undertaking by the Government. It has to be *implied* from the acts regarding currency, but these are subject to no statutory regulation or control. They buy and sell sterling whenever they like;

(b) that the two *reserves*, which are maintained to maintain the value of token currency, are the real pivots of our currency system. (The Paper Currency and the Gold Standard Reserves.) These reserves are subject to permanent constitutions. Thus, the permanent constitution of the Paper Currency Reserve provides for a metallic holding of gold and silver of not less than 50% of the notes issued, but these permanent provisions *have not been operative*, and in the meanwhile, the reserve is *governed by transitory provisions* which are likely to *disturb the proportion between the Paper Currency issued and the reserve kept to back it*;

(c) *that the interest on investments* in the two reserves has been up to now *credited to Government* revenue, particularly after April, 1923, and not for strengthening the reserves as the Acts require.

As regards the objects and functions of the reserves, they point out the following mistakes:—

(d) that *the objects of the two reserves are not clearly demarcated* and therefore confusion arises when the reserves perform their functions ;

(e) that the maintenance of the convertibility of the note into silver rupee of the present fineness is only possible so long as the price of silver remains at such a figure that the bullion value of the rupee is not higher than its exchange value ; but the system *would be upset* if the price of silver were to rise above 48*d*. per standard ounce;

(f) that the *principles governing the efficiency of the reserves are not clearly recognised.* Their efficiency for the stabilisation of the external value of the rupee depends upon :

(i) their maintenance at an adequate size,

(ii) their use in an effective manner.

In principle they must be big enough to allow the Indian Government to sell sterling to any amount required in return for notes and rupees, and they must be used promptly and without conditions and the sales must be accompanied by an equivalent contraction of domestic currency. But they state that "in the Indian system *these principles have not at all times been clearly recognised and they are not now and never have been adequately supported and enforced by statutory provisions.*"

There is, for instance, *no provision* as to any *organic relation between the total value of token Currency and the amount of the Reserves.* So far as the note issue is concerned, the statutes provide for no minimum percentage of gold or sterling securities being held in the reserve as cover against notes.

The amount of the Gold Standard Reserve and the time and manner of its use are wholly within the discretion of the Government. This they point out to be the *greatest weakness* in the working of the Gold Exchange Standard.

(g) The fundamental basis of an automatic standard is provision for expansion and contraction of the volume of currency. As the reserve rises or falls with a favourable or unfavourable trade balance, the currency must be automatically expanded or contracted, and adjustment between internal and world prices maintained. But under the Indian system *contraction of currency is not and never has been automatic*, as is shown below :—

Year.	Reverses sold.	Rupees received (*rupees in lakhs.*)	Contraction affected (*rupees in lakhs.*)
	£	Rs.	Rs.
1914–15	8,707,000	13,16	1,05
1919–20–21	55,532,000	47,14	34,68

(2) System is not elastic.

We now take up the second weakness of the present standard.

In India, there is a seasonal variation due to the requirements for financing the movement of crops. In order to provide for them, the currency authority is allowed by law to issue currency notes upto a maximum limit of Rs. 12 crores against *hundis*. This means that there ought to be a *plentiful supply of genuine hundis.* But in practice it is found difficult to secure an adequate number of them. And this difficulty is due to various factors, *e.g.*, our internal trade is financed by a system of cash credits, so that on occasions the currency authority has been forced to use other means to give elasticity.

Besides, in case of a great financial crisis, when the need for additional cash for the support of credit is urgent, this system fails to provide for the emergency. The system is, in short, not elastic.

(3) Divided Control. The third defect of the present system pointed out is that India is the only country in which the Government exercise direct control over currency in general and over the note-issue in particular. *Thus the banking and currency reserves are separated.* This diminishes their capacity to effect their specific purpose of stablisation in the most economical and efficient manner.

Moreover, Government control of currency reserves results in a dual control of monetary policy. The Government controls the currency, but the Imperial Bank controls the credit. This results in *divided control,* which is likely to result in divided counsels, and failure to co-ordinate. The best course should be to concentrate the control in one hand.

Conclusions. Owing to these defects the *system has not the confidence of the public because of its imperfections.*

"The evolution of Indian economic system has now reached the stage when her currency can and should be placed upon a more *simple, certain* and *stable* basis."

(B) Alternative Proposals for Reform. The Commission has considered the following possible *methods* of remedying the defects :

(i) *The perfection of the Sterling Exchange Standard.*

(ii) The adoption of the *Gold Exchange Standard.*

(iii) The adoption of the *Gold Standard with Gold Currency.*

(iv) The adoption of the *Gold Standard without Gold Currency.*

We shall deal with them one by one :—

(I) The perfection of the Sterling Exchange Standard.

They state that the main defects of this standard *could be remedied by the following provisions :*

(*a*) by a single currency reserve under the control of one authority, instead of two separate reserves, as at present;

(*b*) by selling rupees for sterling without limit at the upper gold-point of a fixed parity, and by selling sterling for rupees at the lower gold-point of the same fixed parity.

By so doing the system would become elastic and efficient.

Its inherent defects.

But in their opinion, in spite of this, the *inherent defects of the system cannot be remedied.*

They are the following :—

(1) *If the rise in the price of silver takes place, the silver currency would be threatened*;

(2) if sterling were to be divorced from gold, the rupee would also be divorced from gold;

(3) if sterling depreciated, Indian prices would have to follow sterling prices, and the authorities would be compelled to raise the rate of exchange.

Conclusions.

"There is undoubted disadvantage for India in dependence upon the currency of a country, however stable and firmly linked to gold." India has had experience of both these alternatives and the evils resulting from them are fresh in her memory.

They suggest that this standard could be secured by providing that the currency authorities should be compelled by Law to buy and sell at the upper and lower gold-points respectively and to unlimited amounts, the *currencies of any of the principal foreign countries with a gold standard.*

(ii) The adoption of the Gold-Exchange Standard.

By so doing the rupee would be stabilised in gold.

But they emphasise that there are serious defects in the system which would still persist.

Objections against it.

We have already pointed out the evils of the Gold Exchange Standard. The Commission makes them again emphatic.

The inherent defects are :—

(1) that, if silver rose in price above the melting point of the coin, the rupee would vanish ;

(2) that *it has not the simplicity* which is essential to secure the confidence of the public. The mechanism of an exchange standard is refined. It requires some knowledge of economics to understand it, and to the majority in India it is unintelligible. It is, therefore, *not suited to India.*

"The basic right of convertibility that supports an exchange standard is *too abstract* for the present conditions in India. The backing which it supplies for the token currency is too *intangible* and *invisible.* Without some backing more simple, more certain and solid, confidence in the stability of the currency can grow more slowly than it should." A backing more certain, simple and solid, must be provided.

Indian public opinion will have confidence in one thing only, and that is *gold.* It will supply a real and visible link. They were thus led to the conclusion that it was necessary to establish a sure basis not only for the external, but the internal convertibility of the token currency of India *into metallic gold.*

(iii) The Proposal for a Gold Currency.

The Finance Department of the Government of India presented a scheme for a gold currency before the Commission.

The *chief objects of the scheme* were —

(a) to dethrone the rupee from its position as a standard coin of unlimited legal tender, so that the threat inherent in our present system of the rise in the price of silver would be eliminated ;

(b) to cure the uneconomical habit of the Indian people of hoarding the precious metals as a store of value, by assuring them through the instrumentality of a gold currency, that the same measure which they mete out, in gold value, by way of investment or deposit with a bank, will be meted to them again, in gold value.

The essence of the Scheme.

The scheme had for its essence the gradual and cautious adoption of a gold currency for India within *ten years* by various stages beginning with the buying and selling of gold bars by the Government. For, in the first place, the rupee could not be made limited legal tender unless the present holders were given an opportunity to convert them into gold. The estimate made for this demand for conversion was Rs. 110 crores. Secondly, sufficient gold would have to be accumulated for the eventual adoption of a gold currency. The total amount of gold required for introducing the scheme in all its stages was estimated at Rs. 137·2 crores.

(2) The rate of exchange suggested was 1*s.* 6*d.* per rupee.

(3) And the management of Paper Currency and the conduct of Government remittance were to be handed over to the Imperial Bank of India.

The Commission, after carefully considering the scheme, rejected it.

Gold Currency is unnecessary.

They considered various important points in connection with this scheme.

(A) Effect of India's demand for gold.

In the first place, they took into account the effect of the absorption by India of enormous quantities of gold (estimated at Rs. 137·2 crores in addition to the normal demand for arts, hoards etc.) on the supplies of credit, the rate of interest, and gold prices, throughout the world.

From the evidence which they received from eminent men like Professor Gustav Cassel and Mr. Joseph Kitchin, they were led to conclude that unless economy was exercised in the use of gold, a prolonged period of steadily falling commodity prices in the world was expected. Various European and other countries were trying to return gradually to the gold standard or the gold exchange standard after the War. To their demand for gold would be added the extra demand from India, which would cause increased competition for gold, and *lead to a substantial fall in gold prices and a substantial* *curtailment of credit.* And the fall in gold prices and curtailment of credit would on the balance be unfavourable for India.

Besides, it was expected that the United States of America was not in a position to spare the gold that India would need every year.

(B) Uncertainty as regards amount and time of gold demand.

It was also uncertain what amount of gold would be necessary for gold currency every year, nor was there any surety that the additional demand for gold would be spread over the period of 10 years, as required by the scheme.

On the contrary, there was the possibility of a *part of the notes being replaced by gold which had its own attractions for the Indian public.*

Besides, the decline in the value of silver resulting from the proposal of gold currency would lead to a loss of confidence by the people, and its value would diminish as a store of value, and gold would be absorbed in much larger quantity for non-monetary puroposes.

It was suggested before the Commission that if gold currency were introduced into circulation and if exchange were stabilised, the result would be so to increase confidence that gold would come out from the hoards into circulation and for investment. But in the opinion of the majority the mere act of putting gold into circulation would not develop the banking and investment habit.

The scheme also involved the reduction of the proportion of gold and sterling securities in the Reserve to gross note circulation, during the transition period, to 30 per cent. That proportion was, in the opinion of the majority, too low for safety, especially during a bad year in India.

The estimate of the initial demand for gold laid down in the scheme was Rs. 50 crores. But the majority would not put reliance on this limit. For they considered that, as soon as it would become known that the status of the rupee was threatened, holders would probably get rid of every rupee they could spare and get the silver coins converted into gold coins.

In conclusion, if, the amount of gold needed and the period of absorption of 10 years increased, the difficulties would be intensified and the cost of the project would be increased.

(C) Effects on China.

They also dealt with the effects of the proposals on China. The catastrophic fall in the price of silver in terms of gold, which would take place, would induce China to demand gold as a basis for instituting gold as the standard instead of silver. This would lead to a reaction on Chinese trade, and as China is a growing market for Indian cotton and cotton goods, India would suffer in turn.

(D) Raising of the required credit.

As regards the question of credits, Great Britain would not be able to act alone without the co-operation of America.

But the United States of America would not support a scheme which would give a death blow to her silver market, for she has had traditional interest in silver, so that there would be unsurmountable difficulties in obtaining the necessary credit.

(E) Effect on silver Hoards.

They also considered the effect on silver hoards, which are the only store of value for poorer classes. These are deeply interested in the value of silver bullion, and by instituting a gold currency their store of value would depreciate nearly 50%. This would mean heavy losses for the poorer classes.

(F) Effect on the Silver Market.

Besides, the *future of the silver market was* quite unc‑rtain. However, from well directed enquiries they came to the conclusion that there would be a diminution in its demand in the future. To add to this, if gold currency were resorted to by India, it would mean augmenting the demand for gold, which threatened to be in increasingly short supply, and would lead to a further depression of the gold price of silver.

Conclusion.

Sir Basil Blackett wrote in his memorandum, "if the effect of a decision to attempt the change to gold in India is going to be to upset the gold standard in the United States or in Europe, *India has clearly nothing to gain by the attempt.*" In the opinion of the Commission the attempt would be very likely to have the consequences to which he referred. It would upset the monetary standards of various countries and lead to higher interest rates and economic depression, which would react on India. They, therefore, rejected the scheme.

(iv) The Gold Bullion Standard.

Before outlining their scheme for a standard most suited to India, they emphasize the economic reasons against gold in circulation.

Economic reason against gold in circulation.

If gold in the reserve were transferred to circulation, the *structure of credit* that can be built on the reserve would be *reduced* ; so that the greater the proportion of gold in circulation the less would be the elasticity of the currency system. "In a system that consists solely of gold coins there could be no elasticity, because the currency could only be increased by taking payment in gold for the balance of exports over imports and it could be decreased by the contrary process only. In short, the less the gold in circulation, the more will be the gold in the reserves and the greater the elasticity of the structure of credit that can be built thereon. *Gold in circulation is of uncertain value for the support of exchange.*

What then is the currency system which they favour ? The system they recommend for India may be described as the *Gold Bullion Standard.*

Its essentials.

The ordinary medium of circulation in India should remain as at present—the currency note and the silver rupee. Although gold should *not actually circulate* as money, gold is made the standard of value and the rupee is linked to gold. "It *must* not circulate at first and *need* not circulate ever."

In order to secure this, *an obligation is to be imposed by Law on the Currency Authority*—

(a) *to buy and to sell gold without limit* at rates determined by the fixed gold parity of the rupee;

(b) but in quantities of not less than 400 fine oz.;

(c) *no limitation* being imposed as *to the purpose* for which gold is required. The fulfilment of this obligation will secure the stability of the gold value of the rupee and stability of exchange within specie-points.

Since gold bars are to be given in exchange for notes or silver rupees, *not for export only but for any purpose*, this is not an exchange standard. "It *is an absolute gold standard*. Nevertheless the compensatory mechanism of the exchanges is preserved, because gold bars are not currency." When gold bars are given by the currency authority in exchange for notes or rupees, the currency becomes *contracted*; and when the reverse process takes place, the currency is *expanded*. It establishes the principle that "*gold is the standard of Indian currency at a fixed ratio, and that the currency authority admits it, and must maintain it.*"

The Limitation in the case of India.

A sound gold standard postulates a statutory obligation upon the currency authority to buy and to sell gold at a price which is equal to the par value of the monetary unit.

This obligation constitutes "the *cardinal condition and compelling force*" for the maintenance of the stability of the gold value of the rupee and through it the stability of exchange.

But they state "in the case of India there is a difficulty in the way of imposing this obligation in this form". India demands gold both for monetary and purely social uses, and this latter is to be seriously taken into account. *For social uses India has always absorbed gold in important amounts,* and is likely to do so in important amounts in the future. In India at present an admirably organised bullion market supplies the needs of the public for gold, and the price at which gold is sold includes the cost of importing it and profits of the sellers. But if the currency authority is compelled to sell gold at a *price exactly equal to the par value of the rupee*, it would not take account of these items, and it would become the *cheapest market* for gold in India. Therefore, not only would the bullion market be destroyed, but it would also be *extremely difficult to maintain the value of the monetary unit at parity with gold.* For in order to satisfy the demand for gold, the authorities would have to attract a steady flow of gold into its reserves, and the means to do so would be a *rigorous and continuous contraction of credit* which would be detrimental to the economic progress of India.

"It is essential, therefore, that the conditions which are to govern the sale of gold by the currency authority are to be so framed *as to free it in normal circumstances from the task of supplying gold for non-monetary purposes.*" In order to achieve this object, they have made proposals for fixing the selling prices of gold. This, then, is to be the limitation in the case of India.

But India will retain complete freedom to buy gold in the market as at present and the bullion market will remain the ordinary source of supply of gold for non-currency purposes. The currency authority will not supplant the bullion market or be involved in supplying gold for ordinary internal demands for non-currency purposes.

Subsidiary recommendations.

Various recommendations are also made by the Commission as a result of this adoption of the Gold Bullion Standard.

(1) *That the buying and selling of gold bars by the Government makes it impossible to have any gold coin as legal tender. Thus the sovereign will have no place as legal tender.*

(2) That in order to have some direct means of making the standard known to the masses, gold *savings certificates*, redeemable in three or four years and yielding interest to one who buys it, should be issued.

(3) That *new notes* are to be issued which should be made *convertible into gold bars* and not in silver rupees. Thus a more solid right of convertibility is attached to them than they ever had before. But the old notes must continue to be converted into silver rupees.

(4) That *the coinage of the Rupee should be stopped* until rupees in circulation are reduced to the amount required for small change. The object is to enable silver to be eliminated in course of years.

(5) That *one-rupee notes* should be re-introduced, but should not be convertible by Law into silver rupees.

(6) That the *Reserves should be amalgamated and the proportions and composition of the combined Reserve should be fixed by Law.* This is a provision essential to any currency system in order secure to the automatic expansion and contraction of the currecy and their effect on the exchanges in accordance with the needs of the country. Thus they lay down *that gold and gold securities should form not less than 40 per cent. of the total.*

The Advantages claimed for this scheme.

The first great advantage claimed by the Commission for their proposed system is that it is so simple that it would establish confidence in the stability of the currency very quickly. This standard fulfils the essential condition that it should not be *stable* merely but *simple* and *certain*. It provides the token currency with a right of convertibility that is intelligible to the uninstructed, and with a *backing that is tangible and visible.*

Besides, those, who advocate the introduction of a gold currency state that a token currency of notes inconvertible for internal purposes is the ideal end towards which India should work.

The scheme suggested by the Commission carries India very far along the road towards the end.

The scheme has the advantage of setting up almost immediately a full gold standard (as a preliminary to the ultimate adoption of gold currency).

There has been general agreement that it is difficult to introduce gold currency at once. The alternative, therefore, is to make provision for the gradual strengthening of gold reserves in such a manner as to avoid disturbance to the world's gold and silver market, whilst incurring the minimum of expense. This would certainly not upset prices and disturb Indian business and trade. The scheme proposed would do this successfully.

Apart from the economic loss to India, the existence of a large volume of currency in the hoards is a formidable obstacle to the efficient working of any currency system. As long as the circulating media of the country, whether silver coin or gold coin or notes, are employed for hoarding, the control of the currency authority over expansion and contraction of currency must be uncertain and there must be a possibility of fluctuation of prices. And the mere substitution in the hoards of one kind of coin for another is no remedy at all for this evil.

But the system would encourage the habit of banking and investment by creating confidence and discourage the habit of hoarding precious metals.

(B) The Reserve Bank of India.

We shall now deal with the second recommendation of the Commission with regard to " the authority who should control the working of the standard." *It is necessary to know in the first* *place* the chief *objects and functions of Central Banks.*

Objects and functions of Central Banks.

In general, Central Banks are entrusted with the *sole right of note issue* and the *responsibility of maintaining the stability of the currency.* When Banks possess this privilege of note issue, an elastic currency can easily be provided by expanding and contracting the volume of currency to meet public requirements. They are the custodians of currency and banking Reserves and of the cash balances of Government.

An ordinary bank mobilises the savings of individuals, but a Central Bank is the Bankers' Bank which mobilises the surplus money of the Banks and makes it available for those who need it. It thus makes possible for the money of individual banks to do many times the work it would do if left as a separate institútion without a Central Bank. Then again, in times of financial crisis, it can come to the help of various banks of the country by extending credit facilities liberally and by upholding the credit of the country, and thus diminishing the probability of a crisis ending in a crash. They, therefore, uphold the credit of the country and guide its financial policy.

It is also essential for the development of banking generally that the foundations of the credit organisation should be truly laid.

But this is possible only if there is a Central Bank. To rediscount bankable bills is the principal function of Central Banks. This function is of the greatest economic importance, because it would enable the commercial banks to turn into cash, when necessity arises, a maximum of their assets with minimum of disturbance. Not until then does the commercial bank's most legitimate asset, which is a short-term advance against goods in the form of bills of exchange, become a quick asset that would be quickly realised. The bills become their secondary reserves.

At present, the control of exchange and credit in India is in the hands of two distinct authorities. The evils that arise from this separate control we have already enumerated. To avoid these evils we need the institution of a Central Bank.

But, who is to be entrusted with these functions? It is either the Imperial Bank of India or a new institution which could substitute it. But they say that the Imperial Bank would not be suitable in discharging the duties of a true Central Bank, and this is so for various reasons.

It would be precluded from undertaking a great many tasks which it now performs as a commercial bank successfully.

The country would then lose the benefit of the elaborate and widespread organisation which has been set up throughout India for giving banking facilities in this country. Far from that, the Bank should be freed altogether from the restrictions which the charter imposes upon it, and which have their origin in the hybrid character of the functions which are originally assigned to it.

Therefore a new organisation is found necessary, and the Imperial Bank itself with its various branches can work as the Agent of the Central Bank.

A few details of the new Bank.

The name of the Bank suggested is the '*Reserve Bank of India.*' Some general features suggested by the Commission need mention:

(a) Its capital must not be very large ; Rs. 5 crores is sufficient.

(b) A fixed preferred dividend is suggested for payment to the share holders and a share of profits to the Government.

(c) Its administrative machinery is to be on the same lines as that of the Imperial Bank of India.

(d) It is clearly laid down that this great bank should be free from political pressure and its constitution is made democratic. There is to be a Central Board of 14 members, 9 elected and the rest nominated.

(e) No member of a Legislative Council can be nominated on the the Board nor is the representative of any commercial bank to be appointed on it.

(f) Its destination will be Bombay.

Various suggestions have also been laid down in detail with regard to its Reserve Fund and the share of the Government.

The Business of the Bank.

We have already summarised the important functions of a Central Bank. By all means *all these will be the functions* of the new Reserve Bank.

(1) They suggest that the power to buy and sell, in the market, bills of exchange and to rediscount them, promissory notes, or other commercial paper, arising out of *bona fide* commercial or trade transactions, bearing 2 or more good signatures, and having a maturity not exceeding 90 days should be given to it.

(2) It has to do remittance operations of the Government of India and in London. The business of remittance is essentially banking business, hence it is its legitimate function. The Government will thus cease directly to operate on the exchange market.

Besides, as an obligation is laid to maintain the value of currency, and as remittance operation has an intimate connection with this first operation, logically both the functions should be centred in one institution.

(3) It should decide for itself the method of remittance operations, *but they suggest that public purchase of sterling in India is an adequate method.*

(4) It may make and issue bank-notes.*

(5) It may buy and sell gold, whether coined or uncoined.

(6) It may act as agent for Government of India and Provincial Governments in the transactions that are laid down by statute, and manage their reserves.

(7) It may open accounts in foreign countries and act as agent of any bank carrying on business in or outside India.

The Business which the Bank should not do.

As this bank has to be the safest institution for the country, there ought to be various restrictions. The restrictions† put on the Bank are that—

(1) It shall not engage in trade or have a direct interest in any commercial, industrial or other undertaking, *i.e.* generally *commercial business should not form a part* of its transactions. It may, however, be said that discounting and rediscounting bills of exchange are themselves commercial trans-

*See Chapter on Paper Currency.

†For detailed functions and restrictions, see Schedule II of the Report.

actions. True, but this function is given to the Bank for various reasons which we have already enumerated.

(2) It shall not advance money on mortgage generally.

(3) It shall not make unsecure loans or advances.

(4) It shall not deal in Bills which are not payable on demand.

(5) It shall not accept money for deposit on a fixed term nor pay interest on credit balances.

(6) It shall not purchase its own shares or shares of any other bank or corporation.

SECTION I—**Ratio of Stabilisation.**

IV. Ratio of Stabilisation to be 1s. 6d.

For the reasons given below, the majority recommend the rate of exchange to be 1*s*. 6*d*. for the rupee (in relation to gold).

1. Adjustment of Indian to world prices.

(a) The chief reason they state is that, at the exchange rate of 1*s*. 6*d*., prices in India have already attained a substantial measure of adjustment with those in the world at large, and that any change in the rate would mean a difficult period of readjustment. It would lead to wide-spread economic disturbance which must be avoided.

If it can be shown that prices have to a great degree adjusted themselves to the existing *de-facto* rate, then that rate must be adhered to and that such an adjustment has taken place is a *matter of fact*.

In the beginning they recognise that "*index figures are not an infallible guide*, and that there are many directions in which they might lead one astray.........*In India there are special difficulties in the way of compiling a representative* index figure owing on the one hand to the great size of the country and the cost of inland transport, and on the other to defects in the statistics on which the compilation is based."

Bearing the above reservations in mind, they proceed to examine the data available to prove that 1*s*. 6*d*. is the *de facto* ratio, and in doing so, they take into account the indices of wholesale prices compiled at Calcutta and Bombay, and especially the former.

Mutual adjustment of prices and exchange to world price level.

No.	During period.	Rate of exchange (nearly.)	Rupee price level.	World gold prices.
1	December 1922—June 1924.	1 *s.* 3 *d.* gold.	176 (limits 170 & 181.)	Approximately the same.
2	July 1924—January 1925. —June 1925.	Sharp rise to 1 *s.* 6 *d.* gold. 1 *s.* 6 *d.* gold.	Fell from 179 to 157	
3	June 1925—March 1926.	1 *s.* 6 *d.* gold.	158 (limits 163–153.)	Approximately the same at the end of the period.

The data given by the majority have been arranged in a tabular form as above. Treating the statistics in the most generalised way and disregarding minor movements, the conclusions drawn by them are that—

(1) During the 18 months, while the rupee was worth about 1s. 3*d*. gold, the rupee price level ranged round a mean of about 176.

(2) In the succeeding year, while the rupee was rising to 1*s*. 6*d*. gold, the rupee price level *fell below 160*.

(3) Since then, while the rupee has remained, or has been held, at about 1*s*. 6*d*. gold, the rupee price level has ranged round a mean of *about 158*, with a recent tendency to fall in sympathy with world prices. But the *level of world gold* prices, as indicated by the wholesale price index figures of the United States of America and the United Kingdom, was (in spite of intermediate fluctuations) *approximately the same* at the beginning of period (I) and at the end of period (III).

Conclusion drawn.

Thus, "it is natural," they state, "to conclude that, during the period of change, there was a mutual adjustment of prices and exchange, and that a substantial *equilibrium was attained* about the middle of 1925 and has been since maintained."*

(b) A further indication of the equilibrium between internal and external prices during the last 12 months preceding August, 1926, is to be found in

* They have also shown the nature and extent of the tendency towards adjustment by means of graphs, and the reader is referred to paras 185, 186, 187 of the Report.

the *steadiness of exchange.* Exchange is the mechanism by which differences in these two price levels are adjusted and by which they are kept in unison. When exchange remains steady over a fairly long period, it may be inferred that there are no differences to be adjusted. Thus as the exchange was steady over a long period, it meant that Indian prices had adjusted themselves to world prices.

(c) It is relevant also to consider the course of India's foreign trade. It would naturally be affected by any disequilibrium between external and internal prices. But the general trade of the country taken as a whole showed no sign of the imposition of this disequilibrium. The foreign trade was steady and there were no adverse circumstances.

II. Adjustment of wages.

The majority inferred on general grounds that considerable progress has been made in the process of adjustment of wages with the present level of prices and exchange. Prices are bound to react on wages and particularly so in India, because a much larger percentage of wages is spent on foodstuffs than in Western countries and that therefore there is a very necessary ultimate adjustment of wages to the price of foodstuffs. And this is true as recent history of Indian prices manifests itself.

Then again, were exchange and prices steady over a considerable period, one should feel justified in assuming that wages were in adjustment, unless there were any clear indications to the contrary.

The statistics of foreign trade strengthen the assumption. Nor is there any indication of any mal-adjustment of wages paid by manufacturing industries generally.

III. Effect on contracts.

It is also relevant to consider how contracts will be affected by the 1*s*. 6*d*. ratio.

(a) In the first place, it is true that Land Revenue and other long-term contracts were settled when exchange was at 1*s*. 4*d*., but they state that, in view of the great rise in prices since 1914, the real incidence of Land Revenue measured in terms of commodities has been very materially lightened, and that the 1*s*. 6*d*. ratio will not be a hardship in this respect.

(*b*) Besides, it cannot be contended that contracts concluded prior to 1918 bulked more largely in the economic life of the country than those concluded after 1918, during which period the exchange was in a state of flux.

After the prolonged disturbances which have taken place, it is impossible to do justice to the long-term debtor or creditor by fixing any particular ratio of exchange.

Thus, they conclude that the least disturbance would be caused and least injury done to all interests by adhering to the *de-facto* ratio.

Majority's consideration of the arguments for reversion to 1*s*. 4*d*. ratio.

(1) It is argued that 1*s*. 6*d*. rate came into being through Government manipulation of the currency, and that a rate so established can be disturbed with less harmful results than would follow from the disturbance of the rate which has been produced by the interplay of purely commercial forces.

The answer of the majority is that, in the first place, this is not supported by facts, and that in the final stabilisation of the rupee it is the facts of the present that must be faced. When prices and other factors are in adjustment with those in the world at large on the basis of an existing exchange rate, the question of the means by which that rate came into existence has no bearing on the extent or violence of the economic disturbances which would result from an alteration in the rate.

(2) It is said that 1*s.* 6*d.* ratio will accentuate the fall of prices in India resulting from the fall of world gold prices, such as took place in the year 1920.

But the Majority state that this was quite unlikely to come about. The economic conditions of to-day are very different from those prevailing in 1920. Besides, if the world's gold production in the future should fail to keep pace with the demand, a period of falling prices would set in. But experience shows that the price movement due to such a cause would be slow and gradual.

Certainly India would suffer with the rest of the world from a long period of depression resulting from falling prices, but they state that this risk would be there whether the exchange were at 1*s.* 4*d.* or at 1*s.* 6*d.*

(3) The Majority state that the reversion to 1*s.* 4*d.* would affect the budget adversely and considerably immediately. They estimate the loss per annum at somewhere near Rs. 6 crores. This would certainly mean an increase in taxation, and also as regards the railway budget, an increase in rates and fares. And these in their turn would disturb the trade and the commerce of the country, and increase the cost of living of salaried servants.

(4) They state that a reversion to 1*s*. 4*d*. would mean a general rise in prices of 12½%, a change which would be severely felt by consumers generally, and specially by the poorer classes. It would also mean an arbitrary reduction of the real wages of labour.

(5) They state that the effect of the change to 1*s*. 4*d*. on foreign trade would be immediate and for a time convulsive. The sudden fall in exchange might create a boom which would be followed later by a slump.

SECTION II—**Arguments of the Minority.**

(I) Is 1*s*. 6*d*. the *de-facto* ratio?

Sir Purshotamdas Thakurdas, in his minute of dissent, states that to fix the rupee at 1*s*. 6*d*., because it is the *de-facto* rate, is a premise which is *not entitled* to the slightest weight. The reasons for this strong opinion are many. In the first place, the legal standard of money recommended by the Herschell Committee was 1*s*. 4*d*., to the rupee and this remained effective upto 28th August, 1917, for a continuous period of nearly 25 years, and although it was disturbed during the War, it was the action taken on the Babington-Smith Committee that deliberately threw it out as the *de-facto* ratio, and fixed an unnatural rate of 2*s*. gold.

The opportunity of 1924.

But when the attempt to stabilise it at 2*s*. gold was abandoned, and the rupee was allowed to adapt itself to market conditions, it reached approximately *1s. 4d. gold in September, 1924*. Here then was an opportunity to stabilise the rupee at its long established legal standard of money payments ; but in spite of the suggestions in the Legislative Assemly to restore it, The Government of India declined to favour these proposals. Besides their telegram of the 11th October 1924 (when exchange was about 1*s.* ½*d.* gold) to the Secretary of State, "shows that their policy then was to look for, in other words, *a permanently higher rate than 1s. 4d. gold.* Subsequently, when in April, 1925, the pound sterling reached gold parity, the Government of India were able to talk of this new ratio as 1*s.* 6*d.* gold, instead of 1*s.* 6*d.* sterling."

How was 1s. 6d. reached?

He further considers how the rate of 1*s.* 6*d.* sterling was reached. According to him the rupee was maintained at 1*s.* 6*d.* by "*the official administration of the currency.*" There was deflation of currency accomplished by preventing the expansion of the currency to the extent normally required by India, as is shown in the following table.

Annual Average.	Expansion of currency.
Pre-War.	Rs. 20 crores (and above.)
1921–1925	Rs. 11·12 crores.

(*a*) Deflation of Currency.

It may be argued that deflation was necessary during this period in the interest of the country. But there were circumstances which go to prove that *more currency was deflated than was required* (or the normal expansion of currency was prevented).

(1) In the first place, the Imperial Bank of India rate went as high as 8 per cent. towards the end of 1923, and remained there for the first half of 1924.

(2) The fact that there was stringency in the market was even admitted by the Government to be the result of "the direct outcome of Government action in contracting currency, or rather in placing strict limits on possibilities of expansion."*

(b) Natural corrective made impossible.

Whilst the currency was being administered in this manner, the *natural corrective to rise in exchange*—the tender of gold at the currency offices—*was made impossible* for practical purposes by the retention of the fictitious ratio of 2*s*. on the statute book. The gold imported into India could not function as currency and was a mere commodity.

Ratio not established since October 1924.

Besides, the contention that 1*s*. 6*d*. ratio is the *de-facto* ratio because it has been established since October, 1924, has no truth in it. Sterling *was not on parity with gold till June, 1925*. From *October, 1924, onwards the rupee was not 1s. 6d. gold*, but 1*s*. 6*d*. sterling. The rupee did not reach 1*s*. 6*d*. gold till June, 1925, when sterling reached gold parity, and this rate has, therefore, prevailed only for a year.

II. No adjustments of prices to a 1s. 6d. ratio.

Sir Purshotamdas next considers the statistics produced by the Majority to prove that at the rate of 1*s*. 6*d*. per rupee, prices in India have already attained a substantial measure of adjustment

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* The Viceroy's telegram to the Secretary of State, dated the 8th October 1924.

He also refers to a telegram of the Secretary of State to the Viceroy dated the 10th October, 1924, in which he expressed himself as follows :—"It seems to me, however, that the vital consideration is not so much the actual level of exchange at the moment as the avoidance of such abnormal stringency as might threaten the financial and economic position."

with those in the world at large. He divides his examination of prices* into three main parts.

(1) Prices from June 1925 to February 1926.

After the rupee touched 1*s.* 6*d.* in June, 1925, for six months there was a rise in Calcutta Index Number. But sterling reached its pre-war parity in June, and the index number of sterling price was 158. Since then it steadily *fell* to 149 in February, 1926.

Period.	Calcutta Index Number.	Sterling prices.
June 1925 ...	157 Steady rise.	158 Steady fall.
January 1926...	163	
February 1926	158	149

Thus, as the table shows, while there *was a fall of 9 points* in the British Index Number, there was, on the contrary, a *rise* of one point in the Calcutta index-number (when the rupee touched 1*s.* 6*d.* gold).

Then again, from the following table the conclusion becomes inevitable that the fall in Bombay prices was due to the *fall in gold prices themselves over the world* and *not to any adjustment of Indian prices to 1s. 6d.*

* "We had before us a statement from which I have taken the figures used by me in this note. The figures relied on by my colleagues are also based on the same statement." Sir Purshotamdas Thakurdas.

Period.	Bombay wholesale prices (Index Number.)	United States of America gold prices. (Index Number.)	United Kingdom gold prices. (Index Number.)
July 1925 ...	158	160	157
February 1926...	152	155	149

(2) The course of prices from December 1922 to June 1925.

He then examines the contention of the Majority that the fall in rupee prices in the first half of 1925 represents "the tendency of those to adjust themslves to the rise in exchange." The figures given by him are arranged in the following table :—

Period.	% gold parity of the rupee.	World gold prices. (Index Number.)	Calcutta prices. (Index Number).
December 1922...	95	156	176
June 1925 ...	113	157	157

The figures show that the *adjustment of Indian prices to world prices was only partial till June, 1925.* Because, as gold parity rose 19% (from 95 to 113), the adjustment to be complete should have meant a corresponding fall of 19% in the Indian price level, *i.e.*, a fall of 33·5 points in the Calcutta Index Number. But the actual fall was of 19 points only (from 176 to 157).

*The Calcutta Index Number fell 5·3 points, a figure which corresponds very closely with fall in Bombay Number and strengthens the same conclusion.

(3) The course of prices from July 1922 to February 1926.

He then takes the whole range of price movements from July 1922 to February 1926.

Period.	% gold parity of the rupee.	World price level. (Index Number.)	Calcutta price level. (Index Number.)	Average of Calcutta and Bombay. (Index Number).
July 1922 ...	90	155	181	185
February 1926...	144	155	158	155

The conclusions drawn from the above table are that the world price level was exactly the same at the beginning and end of this period. And when there was an *increase of 27% in gold parity* of the rupee there was *a fall* in the Calcutta Index Number of *23 points*. But on a 27% increase in gold parity of the rupee, a *fall of 49 points should have occurred* to bring about complete adjustment of Indian to world prices. Thus a fall of 26 points, or *more than half the adjustment was still to come in February, 1926.*

Taking the average of the Calcutta and Bombay Index Numbers we find a fall of only 30 points against 50 points (27 per cent. of 185) to be expected for full adjustment.

Conclusions.

Thus at the rate of 1*s*. 6*d*. per rupee, prices in India have *not* attained a substantial measure of adjustment with world prices, but the greater part of the *general adjustment* to *1s. 6d. by a fall, has still to come.*

As regards Wages, Sir Purshotamdas concludes that *no adjustment* either in agricultural, industrial or clerical wages has taken place, and none would hereafter, without a struggle. He proves the truth of this statement by the help of statistics.

III. No adjustment of Wages to 1s. 6d. ratio.

(a) *Agricultural Wages.* From the statement submitted by Mr. Ginnings of the Labour Bureau in Bombay, it was found that in the various divisions of the Bombay Presidency *the increase* in the wages of labour between 1913 and 1925 was as follows:—

Areas.	Class of labours.	*Percentage Increase.*
I Rural ...	Field	106
,, ...	Ordinary	86
,, ...	Skilled	109
II Urban ...	Field	121
,, ...	Ordinary	104
,, ...	Skilled	116

In the absence of any other data, these figures he concludes, may be taken as representing the general agricultural wage level in India, there being no evidence of a decline in wages from any part of the country.

(b) *Industrial Wages* :—Regarding the industrial labour, the figures submitted were as follows:—

Industry.	Index number for 1914.	Index number for 1925.
Bombay Cotton Mill ...	100	232
Jute Mill	100	150

From no part of India was there any suggestion that industrial wages had a tendency to *fall*. Besides, increase in *wages lagged behind* the rise in prices since 1914. The variations in the Jute Mills in Bengal are shown as follows:—

Date.	Index Number of Calcutta wholesale prices (30th July. 1914=100.)	Wages. (1913=100,)
May 1918 ...	173	110
January 1920 ...	218	140
April 1925... ...	169	150

This illustrates the very slight connection, over a considerable period of time, between variations in the cost of living and in wages. He also lays stress on the inability of the Industrial wage-earner to reconcile himself to any decrease in wage, even on the ground of the appreciation of the rupee in gold, as was proved by the strikes of the Bombay Mill-hands in 1923 and 1925.

Even with regard to the employees on the State railways there has been no reduction in wages. Thus, in the North Western Railway Locomotive Workshops at Lahore, the average increase in monthly wages of unskilled workmen in 1922 was 220, nor was it suggested by any official witness that the Government contemplated any reduction in the wages of their employees on the ground of the appreciation of the rupee in relation to gold.

(c) *Clerical Wages*:—The official figures supplied with regard to wages of clerks, in the City of

Bombay in 1924, showed a percentage increase of nearly 77 over 1914.

Conclusions.

The Indian cost of living index number in March, 1926, was 155. Any increase in this cost consequent on a reversion to the 1*s*. 4*d*. ratio (even assuming that adjustments to 1*s*. 6*d*. have fully taken place) would not exceed 12½ per cent., even then there would remain a *clear margin to cover*, as is shown by the figures of wages (except in the case of the labourer in the Jute Mills and mines in Bengal). "Besides, an adjustment in wages to the 1*s*. 6*d*. basis, if it has to be enforced, will therefore entail a long and bitter struggle between Labour and Capital, with consequent disturbance in the economic organisation of the country."

IV. Effect on contracts.

Sir Purshotamdas next considers the effects on contracts. It has been urged that a change to 1*s*. 4*d*. will prejudicially affect outstanding contracts of a short term character. He refutes this argument by considering the effect on various forms of contracts.

(a) *Commercial contracts* :—It has been acknowledged that for all commercial transactions exchange can be *covered* for a period of 12 months ahead. If a businessman kept his contract open, it would be his own fault. And particularly since 1924, when it was widely known that the statutory 2*s*. ratio was to be changed, no careful businessman can be justified in not covering his exchange.

(b) *Industrial and commercial borrowing* :-The industrial and commercial corporations borrowing over a period of 20 or 30 years, would not be prejudicially affected by having to meet obligations at the gold value of the rupee at 1*s.* 4*d.*, *if they entered in their obligations before 1917.* It is only those who borrowed since 1917, who would be affected by the ratio 1*s.* 4*d.* But these cannot be very large. But after the War, for some time, fluctuations were unavoidable, and then the failure of the Government to maintain the 2*s.* ratio led to such serious fluctuations in the exchange that those, who made contracts during these years of fluctuations, were likely either to suffer or to gain by instituting *any* ratio at present.

(c) *Agricultural indebtedness*—But the indebtedness of the Indian Agriculturist and the masses demands serious consideration. Mr. M. L. Darling, I.C.S. of the Punjab, estimates the rural indebtedness of British India at Rs. 600 crores. It is probably Rs. 200 crores for Indian States. As the rate of exchange between 1900 and 1917 was round 1*s.* 4*d.*, it is only right to assume that most of this debt of Rs. 800 crores was contracted when the rupee was 1*s.* 4*d.* gold. Now to fix the exchange at 1*s.* 6*d.* gold would practically mean putting a burden of 12½ per cent. on these borrowers. This is a class whose case should have the first consideration in dealing with the effects of 1*s.* 6*d.* ratio.

Under the heading of contracts, therefore, " the higher figure of 1*s.* 6*d.* has little to recommend it, and very much against it."

V. Effect on Finance of the Central Government.

The most serious item to be considered is the alleged gain from 1*s.* 6*d.* of Rs. 3·16 crores in the General Budget (Railway Budget is separated from it). As against this, there is to be put an increase of Rs. 2·62 crores in customs on stabilisation at 1*s*. 4*d*. Besides, account must be taken of the decrease under bounties to certain industries given on the rise of exchange to 1*s*. 6*d*., so also an increase in receipts under Income-Tax and Corporation Tax, owing to industries being spared the disturbance incidental to 1*s*. 6*d*., bearing in mind that Joint Stock companies pay very nearly 15 per cent. out of their profits under Income Tax and Corporation Tax.

This clearly shows that the claim of a gain by 1*s*. 6*d*. is exaggerated. However this unearned increment in the Government of India Revenue Budget will exist as a tangible and visible asset only during the period of non-adjustment, and will vanish when adjustment is complete. Moreover, during the period of non-adjustment, while there is a tangible gain to the exchequer, some one pays for it—"*It is the producer who has to accept so many fewer rupees for the produce he has to sell.*"*

VI. Larger resources necessary to maintain 1s. 6d. ratio.

The question to be decided is whether it is necessary to fix a ratio that would require larger resources to maintain, if the fixing of the ratio can be avoided. A little lull in the export trade from March, 1926, necessitated resort to deflation in India to the extent of Rs. 8 crores to maintain exchange, and to the offer of sale of Reverse Councils at 1*s*. 5¾*d*. This is enough evidence to prove that larger resources would have to be required to maintain the ratio.

VII. Alleged effect of reversion to 1*s*. 4*d*.

The Majority apprehend that a reversion to the 1*s*. 4*d*. ratio would lead to a rise in price to the full extent of 12½ per

* Sir Purshotamdas quotes the words of Mr. Robert Campbell and Sir John Muir in their supplementary note in the Fowler Committee Report.

cent. of articles given and consumed in India, and as a consequence, hit the poorer members of the literate class and consumers generally, because prices have substantially adjusted themselves to the 1*s*. 6*d*. rate.

To this the answer given by Sir Purshotamdas is that he has conclusively proved that no adjustment of prices to 1*s*. 6*d*. ratio has taken place, and that the major part of it was still to come. Hence, any disturbance as may ensue from the fixation of the lower ratio will produce a very insignificant disturbance in economic conditions, injurious to but a few, if any at all. "Besides, as regards the burden likely to be imposed, if 79 per cent. of the people of India subsist on agriculture, it is difficult to understand the concentration of my colleagues on the interests of the other 21 per cent. who live on the production of this class."

VIII. Claim of the debtor Class.

Besides, a change to 1*s*. 6*d*. *hits* the large bulk of the *debtor class*, to the benefit of the creditor class. He states, "I cannot conceive of any valid or moral reasons for a step calculated to give the latter an unearned increment at the expense of the former. In India, perhaps more than anywhere else, the debtor class is the largest and the neediest, for whom the Government has always evinced concern and solicitude. What unavoidable reason, then, is there to hit *this* class?"

IX. Suitability of the 1s. 4d. ratio.

Finally, 1s. 4d. was the ratio that stood for 20 years, even during the American Crisis, till 1917, and was only disturbed as a result of the War in common with the ratios of other countries in the world. It cannot lightly be said to be a ratio that is unnatural to the Indian system. No other country has adopted a rate of exchange higher than its pre-war rate. Even Great Britain did not change her standard when the £ sterling dropped to 3·38. Other countries have made great sacrifices to return to their pre-war ratios, which is the proof of the sanctity attaching to them. "But in India, it is not a question of making a great sacrifice to regain her 'permanent rate'. It is, at worst, a question of balancing the disturbance which may be caused by a reversion to 1*s*. 4*d*., and an adoption of 1*s*. 6*d*."

Book III

CHAPTER VII.

History of Indian Paper Currency.

- Period I.
  - Before 1862.
- Period II.
  - 1862–1914.
- Period III.
  - 1914–1919. (during the war.)
- Period IV.
  - Recommendations of Babington-Smith Committee.
- Period V.
  - 1920–25.
- Period VI.
  - Report of Hilton-Young Commission.

PERIOD I—History before 1862.

Bank paper money.

There was no issue of Government Paper Currency before 1862. The Presidency Banks of Bombay, Bengal and Madras were given authority to issue notes by various Acts.* These banks were known as 'Chartered Banks' and were controlled by the Government. People were not familiar with the use of paper currency and communications were very difficult in those days; therefore, the notes of the Banks had a very restricted circulation. The legal limit put to the issue of notes of all the Banks was Rs. 5 crores in all.

The Government Paper Currency System of India dates from 1862, in which year the notes of the Presidency Banks were withdrawn and a Government monopoly of Note issue was established.

Mr. Wilson's Scheme 1859.

The first definite scheme for a Government Paper Currency was put forward by Mr. James Wilson, the first Finance Member of the Government of India. He recommended :—

(1) The issue of Government notes which were to be maintained by a fixed proportion of silver coins to the amount of notes in circulation. The metallic portion of the Reserve was to be in silver coins which was to be *one-third* of the notes in circulation and the rest was to be invested in Government securities.

(2) The division of the country into large number of circles.

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* "And by other banks, known as Agency Houses that did a banking, in addition to a mercantile business". Findlay Shirras: *Indian Finance and Banking*, page 236.

He, in fact, was in favour of the *Banking Principle* of note-issue, which would give elasticity to the system.

But, before the scheme could be considered, Mr. Wilson died, and his successor, Mr. Samuel Laing, was influenced by the principle of *absolute security* of note issue, which was enforced on the Bank of England by the Act of 1844. The Secretary of State endorsed these views and the Act of 1861 was passed, based on this principle.

The Paper Currency Act of 1861.

The main provisions of the Act of 1861 were as follows :—

(1) The issue of Paper Currency by the Government.

(2) A reserve of coin or bullion *against the whole of the notes, except an amount not exceeding Rs. 4 crores which was to be invested in Government Securities.*

(3) The lowest denomination was to be Rs. 10.

(4) For the purpose of the note system India was divided into three or more circles with each Presidency town as the centre of issue.

(5) Notes were to be legal tender in their circles for all payments, except by Government at offices and agencies of issue.

(6) Notes were to be issued against silver coins of the Government, and provision was made for issuing them against gold coin of the Government of India and against foreign gold coin or bullion.

The Currency Principle of note issue.

Consequently, the Indian system of note issue was avowedly modelled on that of the Bank of England as regulated by the Bank Charter Act of 1844, and its chief features remained unaltered upto 1914. In short, the system was based *on the Currency Principle of note-issue*—absolute convertibility at the expense of elasticity.

PERIOD II—**Development of Paper Currency upto 1914.**

But with the spread of education and confidence and familiarity with the use of notes, paper currency began to lose its rigidity.

Gross circulation of Notes.

In the beginning the gross circulation of notes was slow, but the increase became rapid after 1890, as is shown in the following table :—

(*In crores of rupees.*)

Average of year.	Gross circulation of notes.
1862–3	3·69
1890–1	15·77
1900–1	28·88
1906–7	45·14
1911–12	57·37
1912–13	65·62

The changes in the system.

It will be seen that the circulation increased rapidly after 1890. The factors that contributed to it were the changes made in the system.

(1) 5-rupee note.

In the first place, a note of smaller denomination was introduced in 1891. It was the 5-rupee note. It became suitable in payment of small sums.

(2) Universalisation of the system.

Then, so long as the notes were legal tender only within the circle of their issue, they had a limited circulation. But with the steady *universalisation* of the notes the circulation increased. In 1903 the 5-rupee note was made legal tender throughout India except in Burma. And in 1910 notes of the denomination of 5, 10, 50 and 100 rupees were universalised. At the same time the number of circles was reduced.

Developments in the Paper Currency Reserve.

(1) The increase in fiduciary portion.

The changes were also slowly made in the Paper Currency Reserve. The first change made was in the *invested* (*fiduciary*) *portion of the Reserve,* as shown below :

(*In crores of rupees.*)

Year.	Additions made to invested portion of the Reserve.
1871	2
1891	1
1892	1
1897	2
1905	2
1911	2

Adding to these increases Rs. 4 crores already invested by the Act of 1861, the total invested portion increased to Rs. 14 crores; of these Rs. 2 crores were invested in sterling securities in 1905 and another Rs. 2 crores in 1911.

(2) New functions of the Paper Currency Reserve.

Before the closing of the Mints to the free coinage of silver in 1893, the Paper Currency Reserve was held in silver coins.

(a) But by the Act of 1893 currency notes were issued in exchange for gold coin or bullion to any amount.

(b) We also saw, in a previous chapter (page 53), that, by the Gold Note Act of 1898, the Government of India was authorised to issue notes in India against gold deposited *in London* with the Secretary of State. This was intended as a temporary measure to remove the stringency in the money market. But it proved to be so useful that in 1902 the Act was made permanent, and the gold in England was utilised in buying silver for India. Finally, the Act of 1905 gave authority to the Government to hold the Reserve in rupees, gold coin and bullion and securities *either in India or in London.* Thus, by these Acts council drafts began to be sold by the Secretary of State for Gold in London against the issue of notes to an equivalent amount in India, and this mechanism came to be used *in support of exchange* (see pages 75-76).

Thus, since 1905 the Paper Currency Reserve held in London served a two-fold purpose. It came to be used (i) in buying silver for India and (ii) to support exchange when the balance of trade went against India.

(c) We saw in another chapter (page 74) why gold in the Paper Currency Reserve in India was diverted to London to the extent of £5,000,000.

Its composition on 31st March, 1913.

The composition of the Reserve on the 31st March, 1913, was as follows:—

(*In crores of rupees.*)

Total circulation.	Silver in India.	Gold in India.	Gold in London.	Securities.	
				Rupee.	Sterling.
68·97	16·45	29·37	9·15	10	4

From this table we find that the Securities amounted to a little over 20 per cent. of the total reserve. This was a much lower percentage than was usual in earlier years, because at the end of 1896-7 it was 42·1 per cent.; at the end of 1905-6 it was 26·9 per cent.

Findings of the Chamberlain Commission.

Such was the situation when the Chamberlain Commission was appointed to examine the whole currency system of India.

(A) Existing system inconvenient.

In the first place, the Majority of the Commission took account of the Paper Currency system as it existed in March, 1913. They pointed out that India needed a more *elastic currency* for her increasing trade and commerce.

Unlike England, conditions in India, at all events outside the Presidency towns, did not favour any great extension of the cheque system or of credit instruments generally, and metallic currency and notes of small denominations remained the favourite and the only suitable currency medium with the vast majority of the people.

Therefore, the restrictions imposed upon the note issue system by the requirement of a metallic backing for all notes issued above a fixed minimum, which can only be altered by a specific Act of the Legislature, had become increasingly inconvenient.

Some elasticity was introduced by the Gold Note Act of 1898, and the development of the system of sales of Council Drafts under which it was possible for notes to be issued in India against money tendered to the Secretary of State in London. But this elasticity was secured, they said, "by the ear-marking of gold in London, which is equivalent to the export of gold from London to India; the expansion of currency of India is thus at the expense of the gold reserves of London, and in some circumstances the resulting stringency in London is so disadvantageous to India as to make an expansion of the currency by this means actually undesirable."

The Majority also justified the policy of increassing the sterling and gold in the Reserve in *London* on two considerations:

(1) In the first place, it was reasonable that for the purchase of silver some part of the gold in the Paper Currency Reserve should be kept in London as the principal source of supply. For this purpose no great amount was required. (2) But there was the maintenance of exchange to be considered. "The facts are," they said, "that the gold in the Reserve in India has been much in excess of the demand, that the Gold Standard Reserve has not in itself been sufficient to secure beyond question the stability of exchange and the gold in London is more directly, and indubitably effective for this purpose than gold in India. In these circumstances, so long as the

Gold Standard Reserve is insufficient by itself for the support of exchange, we think the policy is justified."

(B) Recommendations of the Commission.

With a view to give greater *elasticity* to Paper Currency, the Majority recommended that (1) the fiduciary portion which stood at Rs. 14 crores should be increased at once to Rs. 20 crores. And thereafter it should be fixed at a maximum of the amount of notes held by Government in the Reserve Treasuries *plus* one-third of the net circulation;

(2) Government should *take power to make temporary investments or loans* from the fiduciary portion within this maximum in India and in London, as an alternative to investment in permanent securities. In India such loans should be made to the Presidency Banks on prescribed terms;

(3) the 500-rupee note should be immediately universalised and facilities should be given for encashment.

The advantages claimed :—

They hoped for the following advantages from these recommendations:—

(1) "While the permanent addition to the invested portion of the Reserve will be no more than is justified by past practice and experience *without in any way endangering the complete convertibility of the notes*, the revenues of India will secure the profit earned by investing the amount now held idle in the form of gold in India."

(2) Then, there would be occasions, especially in the busy season, when it would be safe to lend

temporarily sums which it would be unwise to invest permanently. The power to make such loans would, therefore, enable the Government to earn interest on sums which would otherwise be idle needlessly, and would provide at the same time a *much needed facility for a temporary expansion of the currency* in the busy season, by virtue of which the *market might obtain some relief*, though not at first, perhaps, a very great amount, from its currency stringency.

(3) Besides, the power to make temporary investments in London on account of the Paper Currency Reserve would be a convenience to the Secretary of State in permitting him to sell Council Drafts against the Paper Currency Reserve, in anticipation of silver purchases or of any other cause, without the loss of interest and other disadvantages, which might sometimes come about, if he were compelled, without discretionary power, to utilise the entire proceeds of such sales in earmarking gold.

(4) As the circulation of notes in India increases, it would be within the power of the authorities to increase as and when desirable either in permanent or the temporary investments of the Reserve or both without a special Act.

(5) The power to make loans from the cash held against notes in the Reserve Treasuries would provide the Government with a useful alternative or supplementary means of counteracting some of the disadvantages arising from the existing Reserve Treasury system.

But before the recommendations could be put into force, the War broke out.

PERIOD III—Paper Currency during 1914 to 1919.

In the history of the rupee during War time, we traced the extra-ordinary difficulties which the Government had to face to meet the increased demand for silver, coinage. In spite of the rise in the price of silver enormous quantities of silver had to be imported, but still the demand was unsatisfied.

Greater elasticity.

The difficulty of obtaining sufficient quantities of the precious metals for coinage purposes, and as backing for the issue of additional notes, made it necessary to *increase the fiduciary (invested) portion of the Reserve.* By various ordinances and Acts of the Legislature, the limits of securities were raised. Thus prior to the War, the invested portion of the Paper Currency Reserve was limited by law to Rs. 14 crores. Between November, 1915, and December, 1919, *the legal limit of the invested portion was raised to Rs. 120 crores.** By Act XXVI of 1919, the invested portion of the Reserve was fixed at Rs. 120 crores of which Rs. 100 crores might be invested in British Treasury Bills. During the same period the gross circulation of notes increased nearly three-fold, while the percentage of metallic backing decreased by nearly one-half.

The following table shows the growth of circulation and the changes in the composition of the Reserve :—

* Historical Memorandum submitted Mr. A. C. Mcwatters, Finance Secretary to the Government of India, before the Royal Commission on Indian Currency and Finance, 1926. Para 7 of Volume II.

(*In lakhs of rupees.*)

Date.		Gross note circulation.	Composition of Reserve.			Total.	Percentage of total metallic reserve to gross note circulation.	Percentage of securities to Gross note circulation.
			Silver.	Gold.	Securities.			
31st March, 1914	...	66,12	20,53	31,59	14,00	66,12	78·8	21·2
Do. 1915	...	61,63	32,34	15,29	14,00	61,63	77·3	22·7
Do. 1916	...	67,73	23,57	24,16	20,00	67,73	70·6	29·4
Do. 1917	...	86,38	19,22	18,67	48,49	86,38	43·8	56·2
Do. 1918	...	99,79	10,79	27,52	61,48	99,79	38·4	61·6
Do. 1919	...	153,46	37,39	17,49	98,58	153,46	35·8	64·2
31st December, 1919	...	182,91	43,67	39,71	99,53	182,91	45·6	54·4

Conclusions.

The conclusions to be drawn from the above table are that:—

(a) the gross circulation of notes increased nearly three-fold;

(b) the *percentage* of metallic reserve to gross circulation fell from nearly 78 to nearly 45;

(c) the *percentage* of securities to gross note circulation increased from nearly 21 to nearly 54.

Notes of smaller denominations introduced.

To increase the note-circulation the Government had to introduce notes of smaller denominations, and in 1917 the Rs. 2-8 note, and in 1918 the Re. 1 note were introduced, and these became very popular.

British Treasury Bills.

The increase in note circulation and the fact that owing to large borrowing on the part of Great Britain during the war British Securities had depreciated, led to a change in investments. By Act IV of 1916, investments were to be made in British Treasury Bills, as part of the Reserve, which being short-dated, were not likely to depreciate. Investments amounting to Rs. 6 crores were made in such bills and these were increased by succesive Acts to Rs. 100 crores by the end of December, 1919.

Difficulties of encashment.

The encouragement to the use of notes by providing ample facilities for their encashment had been a prominent feature of the currency policy in pre-war years, and this policy was continued as long as the supply of rupees was adequate. But the policy had to be reverseen from 1916, owing to causes already indicated. Therefore facilities for the encashment of notes at district treasuries were in a large degree withdrawn. The conveyance of specie by rail or river steamer, was prohibited, and an embargo was placed on its transmission by post. Later, in January, 1916, owing to practical administrative difficulties of dealing in full with the demands for encashment at the Currency Offices during the busy season, the daily issues of rupees to single tenderers of notes were limited to a figure which made it practicable to satisfy large demands in part and small demands as a rule in full. The result of these restrictions was the substitution to a large extent of notes for rupees as the common circulating medium. The notes, as we have seen, were at a discount of as high as 19 per cent. in some places; but it rapidly diminished, when it was seen that notes were freely accepted in payment of Government dues and confidence was restored.

PERIOD IV—**Recommendations of the Babington-Smith Committee.**

(Greater elasticity to Note-issue.)

Proposals for greater elasticity.

The essence of the recommendations of the Majority of the Babington-Smith Committee was to give *greater elasticity to* note issue, and with that view they recommended :—

(1) that, instead of laying down that the invested portion of the Reserve must not exceed a fixed limit, the legislature should prescribe that "*it shall not exceed a maximum percentage of the total issue* (or alternatively, that the metallic portion shall not fall below a minimum percentage of the total issue)." By so doing "it would obviate the necessity for

constant fresh applications to the legislature as the circulation grows." They recommended that the *fiduciary portion should not exceed 60 per cent. of the gross circulation*;

(2) that, with a view to meeting the seasonal demand for additional currency, it should be possible to issue 5 crores of notes over and above the normal fiduciary issue *as loans to the Presidency Banks on the security of export bills* having a maturity not exceeding 90 days. Such a device was already proposed by the Chamberlain Commission;

(3) that the permissive maximum of 120 crores of securities should be retained for *a limited period*.

Other main recommendations.

They also recommended that the constitution and location of the Paper Currency Reserve should be as follows :—

(4) The holding of securities issued by the Government of India should not exceed 20 crores.

(5) The remainder of the fiduciary portion should consist of securities of other Governments within the British Empire, redeemable at a fixed date of which all except 10 crores should be short-dated securities maturing within one year.

(6) The metallic portion of the Reserve should be held in India except for transitory purposes.

PERIOD V—1920 to 1925.

Paper Currency Reserve used to strengthen exchange.

We saw that in March, 1920, in view of the large sales of Reverse Councils which the Secretary of State was unable to meet entirely from his Treasury Balances, he was compelled to sell out *sterling securities* in the Paper Currency Reserve. In the absence of special legislation permitting increased investments in Indian securities, it would have been necessary to cancel notes to the full value of the sterling securities sold.

Act XXI of 1920.

As such action would have caused a serious monetary crisis in India, temporary legislation was passed in March, 1920, continuing the then existing figure of Rs. 120 crores as the limit of permissible investment, but *abolishing the restrictions as to the location of the investments and their sterling or rupee character.** This act remained in force upto the 1st October of the year, when it was replaced by the Indian Paper Currency Amendment Act (No. XLV of 1920).

Indian Paper Currency Amendment Act (No. XLV).

This Act practically gave effect to the recommendations of the Babington-Smith Committee regarding the eventual statutory constitution of the Paper Currency Reserve, while providing for a temporary transitional period of adjustment. The Act provided, in the first place, for the issue of currency notes against Sovereigns and half-Sovereigns at the new rate of Rs. 10 per sovereign and against gold bullion at the corresponding rate of one rupee for 11·30016 grains troy of fine gold. * In the second place, it provided for a (1) permanent and (2) a temporary constitution.

Its permanent constitution.

The object of the permanent constitution was to obviate the necessity for constant applications to the legislature to give elasticity to Paper Currency and to give it thereby

* Historical Memorandum submitted by Mr. A. C. McWatters before the Hilton-Young Commission.

automatic elasticity. The *permanent* constitution of the Reserve was as follows :—

(a) The metallic portion of the Reserve was to be *not less than 50 per cent.* of the currency notes in circulation (instead of 40 per cent. as recommended by the Babington-Smith Committee). In other words, *the invested portion of the Reserve was not to exceed the value of the metallic reserve.* The gold held by the Secretary of State shall not exceed Rs. 5 crores.

(b) As regards the Securities in the Reserve, it was provided that the Government of India Securities *shall not exceed Rs. 20 crores.* Not more than Rs. 12 crores of this amount may be in Securities '*created*' by the Government of India.

(c) Notes to be issued against commercial bills of exchange, maturing within 90 days from their date of issue, were *not to exceed* Rs. 5 crores. This permanent constitution was to be brought into force as soon as the metallic portion was equal to 50 per cent. of the currency notes in circulation as in (a). During the intermediate period the Act provided for a temporary constitution.

Its temporary constitution.

Under its temporary constitution : (1) the securities of the Government of India held in the Reserve were limited to Rs. 85 crores, and (2) the gold and the sterling securities were to be revalued on the basis of Rs. 10 per sovereign instead of Rs. 15.

The "Created securities."

Hence, in revaluation there would be great loss and a great reduction in the amount of the Reserve. The difference was, therefore, to be made good by the issue of a special creation of Government of India securities. These came to be known as "*created securities.*"* The limit set by the Act on the issue of these 'created securities' was Rs. 12 crores. But by the revaluation of the Reserve this limit was to be exceeded considerably. Therefore, it was enacted that as long as the 'created securities' exceeded Rs. 12 crores all interest derived from the securities in the Reserve was with effect from the 1st April, 1921, to be applied in reduction of such excess holdings. The interest on securities held in the Gold Standard Reserve was also to be utilised for the same purpose when the Reserve reached £40 millions. Thus, by the help of the 'created securities' it was expected that within a few years the loss due to revaluation would be made up and the permanent provisions of the Act would be brought into effect.

However, during the years that followed, the provision of utilising the interest on securities in the Reserve towards reduction of 'created securities' was suspended and the interest was taken to revenue.

As a result of the passing of the Act, the gold and the sterling securities held in the Paper Currency Reserve were revalued on 1st October at the new rate of Rs. 10 per sovereign. The deficiency in the Reserve resulting thereby was made up by 12 months' Treasury Bills of the Government of India issued to the Reserve.

* Also called "ad-hoc" securities.

Contraction of currency and emergency currency (1921-24.)

We have referred to contraction of Currency in 1921 and 1922 for strengthening exchange, and to the issue of emergency currency to the extent of Rs. 24 crores to relieve the undue monetary stringency during 1923 and 1924 (see pages 140 and 141).

Conditions governing issue of emergency Currency.

The conditions laid down for the issue of emergency currency against Bills of Exchange were that—

(1) loans shall be given to the Imperial Bank of India only when the Bank rate rises to 6 per cent. and not below it, and that

(2) when the bank rate is below 7 per cent. a maximum of 4 crores should be issued ; second 4 crores when the bank rate is 7 per cent., and last 4 crores when the bank rate is 8 per cent.

But in September, 1924, an announcement was made changing the rules under which loans were made to the Imperial Bank of India from currency so as to make it possible for the Bank (1) to borrow 4 crores when the rate is at 6 per cent. and (2) 8 crores when the Bank rate is at 7 per cent., instead of 4 crores at each rate from 6 to 8 per cent.

Paper Currency Amendment Act of 1925.

In view of the possibility of a greater demand for additions to circulation in the future, the Indian Paper Currency Act was amended in February, 1925, which gave authority to increase the permissible limit of the holding of securities in the Reserve from 85 to 100 crores provided that the total amount of "created securities" of the Government of India shall not exceed 50 crores.

The situation in September, 1925.

The situation in September, 1925, was as follows:—

(*In lakhs of rupees.*)

Gross Note circulation.	Percentage of metallic reserve to gross note circulation.	Percentage of securities to gross note circulation.
189·51	59·3	40·7

PERIOD VI.—Recommendations of the Hilton-Young Commission, 1926.

We now take up the recommendations of the Hilton-Young Commission with regard to Note-issue and Reserve requirements. Before making any definite suggestions in these respects, they, in the beginning, lay great stress on the importance of the stability of the purchasing power of the monetary unit, which could be obtained through the control on currency regulation by the proposed Reserve Bank of India.

Stability of the monetary unit.

The principal task of the Central Bank is the achievement of stability of the purchasing power of the monetary unit.

This stability takes two forms :—

(a) the stability internal *i.e.* the general level of commodity prices;

(b) the value of the monetary unit in relation to gold externally.

But we ask, what is the machinery which will enable the proposed Reserve Bank to undertake this obligation of achieving stability ?

It is a two-fold business:

(1) The sole right of note-issue is to be given to the Bank, and also (2) the power to impose upon the country a judicious credit policy.

These two functions will give the bank the means to control the volume of monetary circulation in India.

(1) *Internal* stability of the value of the monetary unit can only be brought about by limiting the monetary circulation to the actual needs of the country. But this postulates contraction and expansion of the currency according to those needs, and in India, a mainly agricultural country, these needs fluctuate widely. Therefore, the mechanism needs to be controlled very accurately and carefully. But, if paper currency is to be issued by the bank when there is need for expansion, they should be secured by assets which would be suitable, *i.e.* the *assets* should be of such a nature that when they are mature they could be *liquidated*, when the increased monetary circulation is no longer needed.

The true *commercial bill* is the best asset possible, for whenever money is to be withdrawn, it could be sold off. It is self-liquidating, and whenever currency is to be expanded, the bill could be bought by the Government. This then is recommended by the Commission as an asset, and it is the use of these bills as assets that would bring stability to the purchasing power of the monetary unit internally. Government of India securities are also suggested as the assets, although they are far less desirable than commercial bills.

(2) Internal stability is the main factor to achieve *external* stability. In spite of this, it is essential that the note issue should be secured to a substantial extent by assets which are capable of rectifying a temporary disequilibrium in the foreign balance of payments. Such a disequilibrium is bound to occur from seasonal causes or bad harvest or financial stringency. *Gold and gold securities* are the assets most suitable for this purpose, for they can be readily employed to discharge external liabilities.

The system of note issue suited to India.

The Commission has suggested two systems of note-issue to choose from.

I. Fixed Fiduciary system.

II. Proportional Reserve system.

(I) Fixed Fiduciary system.

The Fixed Fiduciary system has been adopted by England under its Bank Charter Act of 1844. Its essential features are the following :—

(*a*) The Bank of England is authorised to issue its own notes on the security of Government debt to an amount fixed by statute.

(*b*) But any additional notes over and above this fixed fiduciary limit have to be secured by a gold backing of 100 %.

(*c*) The business of note-issuing and banking is separated by law into separate departments called the 'Issue Department' and the 'Banking Department'.

(*d*) The Reserve held in the form of notes that are created, but not actually put into circulation, is held by the banking department as a reserve. The size of this reserve constitutes the limit to which the currency can be expanded.

(*e*) If more currency is needed, as for instance in a severe crisis, nothing remains *but to suspend the Bank Act.* This has actually happened three times in its history.

Advantages of the system.

Thus, under this system it is rightly laid down that (1) there is a minimum of currency always remaining in circulation unless the mechanism of exchange should break down completely ;

(2) so long as currency is issued up to the maximum limit, there is no danger of the purchasing power of money being adversely affected ;

(3) under this system, the expansion and contraction of note-issue beyond the fixed fiduciary limit takes place at a rate exactly equal to the increase or decrease of the gold reserve. *Hence this system brings security at the expense of elasticity.*

However, elasticity (or expansion and contraction) of currency in England takes place through the cheque system of the very highly organized banking system of that country.

II. Proportional Reserve System.

The Proportional Reserve system is in operation in many of the countries on the continent of Europe, the United States of America under the Federal Reserve system, and in South Africa. Its essentials are that—

(1) It does not require the note-issuing and banking functions to be separated into two different departments.

(2) Under it, notes in active circulation are secured by a minimum percentage of gold and gold securities which is laid down by law, and which is 40% in the case of America.

(3) These minima are not rigidly fixed but may be transgressed with the consent of the Government for *short periods* on the condition that the issuing

bank pays the tax reckoned on the amount of the deficiency. The tax is made to rise as the deficiency increases.

Its great advantages.

Its chief characteristic is that expansion and contraction do not take place at the same rate as the gold reserve is increased, or decreased, but that it permits expansion, and forces contraction to take place in the proportion of 100 : 40. Thus, an addition of 40 units to the gold reserve permits the bank to issue the notes to the amount of 100 units; conversely, a loss of reserve of 40 units forces a contraction of notes to the extent of 100 units.

Thus, the great virtue of this system is its *great elasticity*. At the same time security is not sacrificed, for expansion above a limit is permitted for short periods only, and that a steeply rising tax forces the bank to take prompt measures to redress the situation.

Proportional Reserve System for India.

The Commission has proposed the Proportional Reserve system for India, but with the departments separated.

They have based their conclusions for the following reasons.

Joint-Stock Banking and the use of the cheque as currency are already developing in India, but they can hardly be expected to develop sufficiently quickly to mitigate the rigidity of the fixed Fiduciary Issue system.

Besides, India needs an elastic system. The need for seasonal expansion and contraction for India is particularly pronounced owing to the mainly agricultural character of its internal economy. And complaints have often been made that Indian Paper Currency has been made unduly rigid, and that it creates stringency.

The separation of the Departments is suggested in view of the fact that many witnesses urged that the accounts of the Bank should be kept in the simplest possible form. This would inspire greater confidence in the new note. On these lines, therefore, they have outlined a charter by which the Reserve Bank will have the sole right to issue notes for a period of 25 years. Its notes will be legal tender and will eventually replace Government notes.

The Reserve.

In the light of the experience of other note-issuing Banks which are working this system, the Commission recommend the provision of *the gold and gold securities* in the Reserve *to be not less than 40 per cent. of the liabilities as a minimum.* The liabilities include the notes in issue plus Rs. 50 crores (set aside as provision against conversion of hoarded rupees into gold).

The effect of the Commission's proposals on the constitution of both the Paper Currency Reserve and the Gold Standard Reserve *in the aggregate** will be, in short, as follows :—

(*a*) *Liabilities of the Bank* :—The Liabilities of the Bank will consist of Rs. 185 crores of Notes issued (future liabilities will be increased by the full amount of further note issues), and Rs. 50 crores set aside as provision against conversion of hoarded rupees into gold;

(*b*) *Assets of the Bank* :—The Assets of the Bank will consist of—

(1) gold and gold securities which will in all be 40 per cent. of liabilities (minimum) *from outset*. But *gold* will *eventually* be 25 per cent. of liabilities (minimum), this limit to be attained by stages in 10 years, with a *minimum* (overriding) *of 30 crores*;

(2) rupee securities which will be not more than 25 per cent. of liabilities, with *a minimum* (overriding) *of 50 crores*;

(3) rupee coins for which a maximum limit is prescribed. The Scheme contemplates no statutory obligation upon the Reserve Bank to convert its own notes into rupee coins. But a reasonable amount of rupees should be kept in order to meet the wants of the public.

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* The Majority have recommended the unification of the two Reserves and a fixed proportion and composition of the combined Reserve. We shall deal with it in the next chapter.

CHAPTER VIII.

History of the Gold Standard Reserve.

The history of the origin and growth of the Gold Standard Reserve has already been traced in Chapters III and IV. Here a summary will be sufficient.

SECTION I—Its origin and reasons for its creation.

Its origin and original purpose.

The Gold Standard Reserve was established in 1900, but it had its origin in the recommendation of the Fowler Committee, that the profits on the coinage of rupees should be set apart and *kept in gold as a special reserve in India* (Page 67). The principle use of the gold reserve suggested by them was that " *it should be freely available for foreign remittance whenever the exchange falls below specie-point ;* and the Government of India should make its gold available for the purpose, when necessary, under such conditions as the circumstances of the time may render desirable. For example, the Government of India might, *if the exchange showed a tendency to fall below specie-point, remit to England a portion of the gold* which it may hold, a corresponding *reduction* being made in the drawings of Secretary of State ; and when it has accumulated a sufficient gold reserve, and so long as gold is available in its Treasury, it might discharge its obligations in India in gold, instead of in rupees."

Thus, the essentials were two : (1) gold so accumulated should be kept in *India*, and (2) it should be made *freely available* for foreign remittances in case of an adverse balance of trade.

Its essential functions.

The method of strengthening exchange.

But as soon as the Reserve was established, the profits on coinage were remitted to *London* and *invested in securities*, and since then, although the original purpose remained the same, *the method of performing its function changed.* Thus, if the Balance of Trade goes *against* India and the exchange value of the rupee threatens to fall below specie-point, a two-fold process is resorted to :

(a) the Secretary of State stops for a time the sale of Council Bills in *London*, and thereby *prevents any additions being made to the rupee circulation in India*, because no Bills would have to be paid from the Indian Treasuries and rupees would not go out of it into circulation. But if the Secretary of State needs funds for various expenses at this time, he could fall back on the Gold Standard Reserve.

(b) *At the same time*, the Government of India would sell *Reverse Councils in India on London*. The effect of doing this would be that, as these are bought and paid for by the public, money would tend to be withdrawn from circulation.

Thus, by action (a) addition to currency circulation is prevented, and by action (b) currency is withdrawn from circulation, *i.e.* currency is *contracted*, and as a consequence, *the exchange value of the rupee tends to rise.*

(B) Liquidating India's unfavourable Balance of Trade.

But when the balance of trade becomes unfavourable to India, the method of liquidating it is by the sale of Reverse Councils by the Government of India. Importers of foreign commodities would thus get an easy method of paying for their indebtedness. They would buy these Councils to the extent of their debt and pay for them in *rupees in India*, whereas their creditors in England would on presentation of these Councils which they receive from the debtors in India, be paid in gold by the Secretary of State from the *Gold Standard Reserve.*

(C) To meet the Home Charges.

Besides, when the Balance of Trade becomes unfavourable to India, the sale of Council Bills in London would be automatically reduced, because the need for remittance of money to India to pay for commodities bought becomes reduced. The Secretary of State would, under these circumstances, meet the "Home Charges" from the Gold Standard Reserve.

SECTION II—Amount, Composition and Location of the Reserve.

(See pages 67-82)

History upto 1913.

We saw that the Reserve was first established in 1900 on the recommendation of the Fowler Committee, and that the minute of Sir Edward Law laid the basis of the Gold Exchange Standard and the formation of the Gold Standard Reserve. But although the Government of India favoured the establishment of the Reserve in gold in India, the Secretary of State decided that the profits on coinage of rupees should be remitted to London and invested in sterling securities. Thereafter the same policy was pursued.

In 1906, however, came a change. The difficulty in meeting the demands for rupees led to the formation in India of a *special reserve* for this purpose outside the Paper Currency Reserve. This Reserve was to be in coined rupees and was to form a part of the profits on the coinage of rupees. Thus, two branches of the gold reserve were formed. (1) the London Branch and (2) the Indian Branch in form of Rupees. The name of this Reserve was changed to the *Gold Standard Reserve.*

We also saw that the Mackay Committee recommended the ultilisation of £ 1 million from the Gold Standard Reserve for capital expenditure on Railways. But the Secretary of State, in spite of protest from the Government of India, actually diverted £ 1,123,000 towards Railway capital.

But the serious crisis of 1907-8 made the Secretary of State change his decision. The Gold Standard Reserve was very hard hit by this crisis. In all £ 8,058,000 was withdrawn from the Reserve to meet the Reverse Councils sold for strengthening the exchange value of the Rupee (see pages 75-76).

During 1909-13, the Government of India pleaded for a *larger Gold Standard Reserve* to meet greater emergencies than that of 1907-8. They considered that the minimum amount should be £ 25 millions and that a substantial part of it should be in a *liquid form*, instead of being invested in securities. But although the Secretary of State reluctantly agreed to the suggested minimum, he would not agree to keep a substantial part of it in a liquid form, except for the amount of £1 million which was to be let out on short loans or put into Bank deposits.

The total amount of the Gold Standard Reserve on 31st March, 1913, was £ 22,571,333 and was composed as follows:—

Date.	Gold deposited at the Bank of England.	Silver in Indian Branch (Rs. 6 crores at 1s. 4d.)	Securities (at market price.)	Money lent at short notice.
	£	£	£	£
31st March 1913.	1,620,000	4,000,000	15,945,669	1,005,664

Recommendations of the Chamberlain Commission. Such was the situation when the Chamberlain Commission was called upon to make recommendations.

(a) *As regards the amount of the Reserve*:— They analysed in the beginning the purpose for which the Reserve was needed. Not merely was it required for meeting the "Home Charges" of the Government of India when an adverse rate of exchange prevented the free sale of Council Drafts, but also to liquidate an unfavourable balance of trade to the extent necessary to prevent exchange from falling below specie point. "On the other hand," they wrote, "the Reserve is not required to provide for the conversion into sovereigns of the rupees in circulation in India. It is true that the Reserve is built up out of the profits on the coinage of rupees, but its object is not to secure the convertibility on demand of the whole of the rupees in circulation, but only to provide a reserve sufficient to convert into sterling such amount of rupees as may at any moment seek export ; in other words, such amount as the owners require to exchange for sterling in order to settle debts due in sterling."

This being the purpose of the Reserve, its amount depended upon *the growth of India's trade*, and the extent of the deficiency that adverse seasons and circumstances were likely to produce. One of the most noticeable features in the crisis of 1907-8 was the fact that, for some time after the crisis had declared itself, imports from abroad, ordered in advance in times of prosperity, continued to pour into India, thus accentuating the adverse conditions resulting from the failure of the crops and the consequent falling off in the volume of exports. Even in such a case the balance would restore itself in course of time, but in the meantime exchange would have collapsed. "It is to maintain exchange in the interval before the balance of trade can right itself that the Reserve exists, and *its resources must be sufficiently liquid to be used at once and sufficiently large* to meet the most prolonged strain to which it may reasonably be anticipated that they might be exposed."

The extent of the resources needed to meet an adverse balance of trade could not be determined with accuracy and the *Majority did not attempt* to lay down any *hypothetical limit* beyond which additions to the Reserve should cease. But they expressed the opinion that the suggested limit of £25,000,000 was insufficient, and that the profits on coinage of rupees should be credited exclusively to the Reserve.

(b) *As regards the composition of the Reserve:*—

They recommended that (1) a much larger portion of the Reserve than the suggested total should be held in actual *gold*. They feared that the enforced realisation of securities in large quantities during a crisis might involve a heavy loss in capital value, and if, the exchange crisis in India (which makes such realisation necessary) would be accompanied or directly caused by a financial crisis in London or reacted upon London, the difficulty of realisation would be intense and the loss severe. "India should," they wrote, " in this respect, be as far as possible independent of London."

(2) By an exchange of assets between this Reserve and the Paper Currency Reserve, a total of about £10,000,000 in gold could be at once secured.

This total should be raised, as opportunity offered, to *£15,000,000*, and thereafter the authorities should aim at keeping *one-half of the total Reserve in actual gold*.

(3) The Indian Branch of the Reserve in which rupees were held should be *abolished*, the rupees being handed over to the Paper Currency Reserve in exchange for gold.

(c) *As regards location of the Reserve* :—The Majority recommended that the most suitable place for the location of the Reserve was London. Their reasons were that "London is the clearing-house of the world. India's chief customer is the United Kingdom, and London is the place where money is required both for the expenditure of the Secretary of State on India's behalf and for payment of India's commercial obligations to this country and the world in general. If the Reserve were kept in India, it would have to be shipped to London to be used. This would involve delay at a moment when immediate action is essential."

Position between 1914–1919.

The recommendation of the Chamberlain Commission that the silver branch of the Gold Standard Reserve, which in June, 1914, amounted to 6 crores of rupees, should be abolished, was given effect to in 1915. And the policy with regard to the composition of the Reserve during and after the War was of holding it chiefly in sterling securities. The following figures show its composition at different times :—

£ *millions* (*nearly*)

—	1913 (March.)	1917 (March.)	1919 (30th November).
Metallic Portion.			
Gold—(1) In India ...	...	1	...
(2) In England ...	1½	...	...
Silver in India... ...	4	...	...
Invested portion.			
(1) Securities ...	16	25	37½
(2) Money lent at short notice ...	1	6	27 (*thousand only*)
Total ...	22½	32	37½

Thus, by November, 1919, the Reserve was held *entirely in securities.* The increase in total composition of the Reserve was due to the increase in the coinage of rupees, consequent on the heavy demand for silver coins during the War. Apart from the policy of not keeping the Reserve in gold, its disappearance may also be traced to the difficulty of obtaining gold during these years.

Recommendations of the Babington-Smith Committee.

The Majority of the Babington-Smith Committee pointed out that, if a sudden fall in world prices took place, it might adversely affect Indian trade, in which case a heavier call might be made on the resources for supporting exchange than had occurred in the past. They, therefore, held that *no limit could be fixed* to the amount of the Reserve.

(1) But profits on the coinage of rupees should be credited in entirety to the Reserve.

(2) They also agreed in principle that the Reserve should *contain a considerable proportion of gold.* But as the conditions were not favourable to obtaining gold, and there was great necessity for gold to support the notes, they recommended that the most satisfactory course would be to keep the Reserve *as liquid as possible* by an ample holding of securities with *early dates of maturity.* The amount of securities in the Reserve with a maturity exceeding three years should not be increased. The authorities should aim at holding all the invested portion of the Reserve in securities issued by Governments within the British Empire (other than the Government of India), and having a fixed date of maturity of *not more than 12 months.*

(3) Besides, as there was a strong sentiment in India in favour of the location of the whole, or at any rate a large part, of the Reserve in India, and as they considered the possession of public confidence as an asset of great value in currency matters, they considered that a portion of the Reserve should be held *in India*; but the *gold so held should not exceed one-half of the total*, and steps should be taken to ensure that it was not made available to the public except for the purpose of export.

(4) The sterling investments of the Reserve (including cash on deposits) should, as in the past, continue to be held in London.

The Reserve between 1920-25.

Then followed the disastrous period which ended in September, 1920, during which the Government sold £55,382,000 of Reverse Councils; but these were paid in London out of the sterling securities and Treasury Bills belonging to the Paper Currency Reserve. The Gold Standard Reserve remained untouched.

In 1921 it was decided to utilize the interest on the securities in the two Reserves for reduction of the "created securities" held in the Paper Currency Reserve.

During the period of the abandonment of the attempt to stabilise the rupee, the Reserve steadily accumulated until on 30th September it exceeded £40 million. Later in July, 1923, in view of the existence of a wide range of British Government Securities, it was decided that while the Reserve aggregated £40 million, £30 million should be held in securities not exceeding two years' maturity, and the rest in securities not exceeding 10 years. But later, it was decided that of the £40 million, £20 million should be in securities not exceeding 2 years' maturity, £10 million in securities not exceeding 10 years, and £10 million in securities not exceeding 5 years.

The composition of the Reserve on 31st July, 1925, was as follows :—

Location.	Amount.
In England—	£
British Government Securities ...	40,419,244
Cash at the Bank of England ...	514
In India	Nil
Total ...	£40,419,758

Recommendation of the Hilton-Young Commission.

In their analysis of the defects of the existing system of currency the Majority of the Hilton-Young Commission have pointed out the weaknesses in the management and functions of the Reserves (pages 136-137). The two main defects pointed out as regards the Gold Standard Reserve have been that :

(1) there is no clear line of demarcation between the purposes for which the Paper Currency Reserve and the Gold Standard Reserve are respectively utilised. Thus, while the original function of the Gold Standard Reserve was to maintain the external value of the silver rupee, its use operates to some extent in maintenance of the external value of the notes.

(2) "Besides, the amount of the Gold Standard Reserve and the time and manner of its use are wholly within the discretion of the Government. The Gold Standard Reserve being built out of the profits of coinage, the amount actually carried to the Reserve depends on the price at which the silver is purchased and not upon the liabilities outstanding. Any estimate of the amount of the oustanding rupee circulation is largely conjectural; it may be estimated at 350 to 400 crores, against which the Reserve held at present is only 53⅓ crores. It is true that a portion of the Reserve against the silver rupee is carried in the coin itself (in the shape of its bullion value) but, it is admittedly difficult to make any immediate use of the metallic contents of the silver rupees at the time when those rupees are seeking conversion into sterling."

Unification of the Reserves.

The Majority, therefore, recommend the *unification* of the Paper Currency and the Gold Standard Reserves, and propose that the proportions and composition of the combined Reserve should be fixed by statute. We have already given the proposed constitution of the Reserve in the preceding Chapter.

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      - (*i*) Demonetization of gold.
      - (*ii*) Attempt at introduction of gold.
    - (B) 1870–1874.
      - Gold not legal tender.
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    - (A) 1874–1878.
      - Rapid fall in price of silver.
    - (B) 1878–1892.
      - (The Remedies ?)
    - (C) 1892–1893.
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      - (*ii*) *Closing the mints to free coinage of silver.*
- 1893–1900.
  - Section I.
    - Act of 1893.
      - Closing the mints to silver and gold.
  - Section II.
    - 1893–1895.
      - Continued fall of silver.
  - Section III.
    - 1895–1899.
      - Raising the rate to 1*s*. 4*d*.
  - Section IV.
    - Report of Fowler Committee and *Gold Currency for India.*

Currency History during Twentieth Century (upto 1927).

- Pre-War Period.
  - 1900–1907.
    - Drifting towards the Gold Exchange Standard.
  - 1907–1914.
    - Part I.
      - Crisis of 1907–08 (Its lessons.)
    - Part II.
      - 1909–1913. (Currency Policy ?)
    - Part III.
      - *Report of the Chamberlain Commission.* (The Gold Exchange Standard.)
- War Period.
  - Upto end of 1916.
    - Dislocation of trade and business.
  - 1917 to end of the War.
    - *Extra-ordinary rise in the rate of exchange.* (Its consequences.)
- *Post-War Period.*
  - *Period I* The year 1919.
    - Report of the Babington Smith Committee. (*The 2 S. Gold Ratio.*)
  - *Period II* 1920 to March 1921.
    - (*Consequences of the 2s. gold ratio.*)
  - *Period III* March 1921–1925 (Condition of Exchange.)
  - *Period IV*
    - 1926–1927.
      - Report of the Hilton-Young Commission.
        - (*The Gold Bullion Standard.*)