MISCELLANEOUS ESSAYS

Statement, Evidence, Reviews, Forewords etc.

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NOTE

The Royal Commission on Indian Currency and Finance visited India in 1924-25 to examine the financial system and to suggest the Reform of the Indian currency. The commission was comprised of the following members.

E. HILTON YOUNG, Chairman
R. N. MOOKERJEE
NORCOT WARREN
R. A. MANT
M. B. DADABHOY
HENRY STRAKOSCH
ALEX R. MURRAY
PURSHOTAMDAS THAKURDAS
J. C. COYAJEE
W. E. PRESTON

G. H. BAXTER }
A. AYANGAR } Secretaries

Dr. Ambedkar explained his views in the statement submitted in reply to the questionnaire issued by the Commission. The statement and his evidence before the Commission are reproduced here along with the questionnaire.

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STATEMENT OF EVIDENCE*

Submitted by Dr. B. R. Ambedkar, Bar-at-Law to
the Royal Commission on Indian Currency

1. In reply to the questionnaire issued by the Commission I beg to submit the following statement of my views. In dealing with the questionnaire issued by the Commission I will begin with question No. 4 because I believe that is the principal issue on which the Commission is asked to give a definite finding.

2. I am emphatic in my opinion that the Gold Exchange Standard cannot be continued with any advantage to India and for the following reasons :—

(1) *It has not the native stability of the Gold Standard.*— A pure Gold Standard is stable because the value of gold in circulation is so large and the new additions to the supply are so small that the stability of the standard is not thereby appreciably affected. But in the case of the Exchange Standard the new additions are dependent upon the will of the issuer and can be augmented to such an extent that the stability of the standard can be appreciably affected thereby.

(2) *It is discretionary in issue without there being anything in it to regulate the discretion.*—It is sometimes said that the Gold Standard is a hard standard which keeps the changing affairs of mankind tied to the wheel of nature over which human agency can exercise no control and that the Exchange Standard affords an escape from this frigidity. In reply to this it must be said that though a discretionary currency, it is so only when the currency is provided with some means which enables this discretion to be properly exercised. There must be some regulator by which the discretion left to the issuer is regulated. From this point of view an Exchange Standard is inferior to a Convertible Standard. A Convertible Standard and an Exchange Standard are alike in

*Report of the Royal Commission on Indian Currency and Finance, Vol. II, Appendix 29, His Majesty s Stationery Office, London, 1926, pp. 235-39.

this that they both allow the use of discretion in the issue of currency. But a Convertible Standard is superior to the Exchange standard because the discretion of the issuer in the former is *regulated* white the discretion of the issuer in the latter is *unregulated.* It is true that in the Exchange Standard there is what is called regulation by foreign Exchanges. But such a regulation, though it is better than no regulation at all, is only a loose and indirect way of reaching the end and cannot be depended upon in all circumstances of reaching it.

(3) *It is economical. But for that very reason it is insecure.*— There are many writers who are enamoured of the Exchange Standard, because it effects a certain degree of economy in the use of gold. But is the plan secure ? Any plan of currency to be sound must be both economical and secure. It will do if it is not economical; but it will certainly not do if it is not secure. Now I submit that the proposition that to *economise gold as a currency is to impair its utility as a standard of value* is as simple and self-evident as the proposition that to use paper or rupee as a medium is more economical than to use gold. For what does this discarding of gold from currency use mean ? It simply means this : that by economising the use of gold you thereby directly increase its supply and by increasing its supply you lower its value, *i.e.,* gold by reason of this economy in its use becomes a depreciating commodity and, therefore, unfit to that extent to function as a standard of value. *You cannot therefore both economise gold and also use it as a standard.* If you want to economise gold, then you must abandon gold as a standard of value, in other words the economy of the Exchange Standard is incompatible with its security.

3. The choice therefore can *never* be between a Gold Standard and an Exchange Standard. If we do not want a Gold Standard we must either go over to a Compensating Standard of Prof. Fisher or to a Tabular Standard of Prof. Jevons. The choice is really between either of them and the Gold Standard. There is no doubt that the Compensating Standard or the Tabular Standard would be better than a Gold Standard. But mankind must become more philosophical than it is before they can be made workable, and

until that happens I think the Gold Standard must be accepted as the only system of currency which is "knave proof" and "fool proof."

4. The next important question is that of the Gold Reserve. Before discussing matters such as location, composition, etc., of the reserve, it is necessary to determine whether we want it. That question in its turn depends upon another question pertaining to the mode in which the Gold Standard is to be introduced. In this connection I do want to say that there are many people who are under the impression that the introduction of a Gold Standard means merely the starting of a mint and the issuing of a gold coin. Nothing can be more erroneous than this. Gold Standard means not the starting of a gold mint but making provision whereby gold will *become current.* For *currency is the standard.* Now in order that gold may be current, it is necessary that other forms of currency must be limited in their volume. There are two ways by which currency may be limited. One way is to make it convertible and the other is to fix a positive limit on its issue. If you choose to adopt convertibility as a method of limitation then there is reason for maintaining a gold reserve. If you choose fixity of issue as a method of limitation then there is no reason for maintaining a gold reserve. As between the two systems I prefer the fixity of issue system. My reasons are two :—

(1) One of the evils of the Exchange Standard is that it is subject to management. Now a convertible system is also a managed system. Therefore by adopting the convertible system we do not get rid of the evil of management which is really the bane of the present system. Besides a managed currency is to be altogether avoided when the management is to be in the hands of the Government. When the management is by a bank there is less chance of mismanagement. For the penalty for imprudent issue, or mismanagement is visited by disaster directly upon the property of the issuer. But the chance of mismanagement is greater when it is issued by Government because the issue of government money is authorized and conducted by men who are never under any present responsibility for private loss in case of bad judgment or mismanagement.

(2) A fixed issue system besides eliminating management will make provision for a larger use of gold in currency. The use of gold is an important matter. The whole world is suffering from a continuous rise of prices owing to the depreciation of gold. Anything therefore that will tend to appreciate gold will be to the good; and if gold is to appreciate there must be a larger use of gold as *currency*. Besides at the present time there is *no* necessity to economise gold, because there is all over the world such a great plethora of money that the less we economise gold the better. From this point of view the Exchange Standard once a boon, is now a curse. It served a useful purpose for some time. From 1873 the production of gold had fallen off and the economy effected by the Exchange Standard was indeed very welcome because it helped in a period of contraction to expand the money of the countries of the world and thereby maintain the stability of the international price system by preventing the rapid fall in prices, which would have been inevitable if all the countries which based themselves on gold had also adopted gold as a currency. But after 1910 conditions changed and the production of gold increased, with the result that the continuance of the Exchange Standard thereafter not only did not help the countries to check the rise of prices but became a direct cause of the rise of prices. For the economy in the use of gold rendered gold which was already overproduced redundant. During the war the use of paper money on an unprecedented scale led to a still greater depreciation in the value of gold all of which was practically due to the *economy* of gold in its use as currency. Consequently as observed by Prof. Cannan "in the immediate future gold is not a commodity the use of whch it is desirable either to restrict or to economise. From the closing years of last century it has been produced in quantities much too large to enable it to retain its purchasing power and thus be a stable standard of value unless it can constantly be finding existing holders willing to hold larger stocks or fresh holders to hold new stocks of it. Before the war the various central banks in Europe took off a large part of the new supplies and prevented the actual rise of general prices being anything like what it

should otherwise have been, though it was serious enough." In the absence of that demand the next best thing would be the introduction of gold currency in India and the East. This introduction of a gold currency can be better accomplished by adopting the fixed issue system rather than the convertible system. For the former will leave a larger margin for the use of gold in actual currency than will the latter.

5. That being my view of the solution of the problem I am necessarily in favour of the abolition of the Gold Standard Reserve as being of no practical use for maintaining the stability of the currency. There is also another reason why I think the Gold Standard Reserve ought to be abolished. The Gold Standard Reserve is peculiar in one respect, namely this; the assets, i.e., the reserve and the liabilities, i.e., the rupees are dangerously correlated by reason of the fact that the reserve cannot increase without an increase in the rupee currency. This ominous situation arises from the fact that the reserve is built out of the profits of rupee coinage. That being its origin, it is obvious that the fund can grow only as a consequence of an *increase* in the volume of rupee coinage. Now as Prof. Cannan remarks " the percentage of administrators and legislators who understand the Gold Standard is painfully small, but it is and is likely to remain ten or twenty times as great as the percentage which understands the Gold Exchange System. The possibility of a Gold Exchange System being perverted by ignorance or corruption is very considerably greater than the possibility of the simple standard being so perverted. Unfortunately there is abundant proof of such perversion in the history of the currency system in India. Already we have had foolish administrators who had been obsessed with the idea that a reserve was a very essential thing and who had therefore gone in issuing currency without any other consideration but that of augmenting the reserve. Nor has the country been wanting in innumerable foolish business men who have condemned the Exchange Standard without ever knowing anything of currency on the sole ground that Government is not allowing them to use the reserve as though to boom up business was the proper function of a currency reserve. Similarly we have amongst us equally foolish politicians

desiring to advertise themselves as friends of the people who want the reserve to be utilised for educating the masses. Any of these three may easily bring about a calamity in {he guise of a blessing, and all this in sheer ignorance of the principles of currency. It is therefore much better to introduce a currency system which will do away with the Exchange Standard and also the Gold Standard Reserve the maintenance of which may any day be a source of mischief.

6. The following then are the requirements of my plan for the reform of the Indian currency :—

(1) Stop the coinage of rupees by absolutely closing the mints to the Government as they are to the public.

(2) Open a gold mint for the coinage of a suitable gold coin.

(3) Fix a ratio between the gold coin and the rupee.

(4) Rupee not to be convertible in gold and *gold not to be convertible in rupees,* but both to circulate as unlimited legal tender at the ratio fixed by law.

7. What is to become of the existing amount of reserve if it is not wanted for currency purposes ? I myself would like it to be utilized by Government as ordinary revenue surplus for any public purpose that may seem to be urgent. But there will remain sources of weakness in the reformed currency which it is wise to recognise. Unlike the Fowler Committee, I am firm in my belief that the rupee currency once effectively limited will maintain its value without the necessity of any reserve. But there is just this chance that the existing volume of the rupee currency is so large that when there is a trade depression it may become redundant and may by reason of its excess lose its value. As a safeguard against such a contingency I propose that the Government should use part of the Gold Standard Reserve for reducing the rupee currency by a susbstantial margin so that even in times of severe depression it may remain limited to the needs of the occasion. The second source of weakness in the currency arises from the peculiar composition of the Paper Currency Reserve. That weakness lies in the existence of what are called "Created Securities." I should like this portion of the Paper Currency Reserve extinguished as early as possible. For unless this is done the paper currency

cannot with safety be made as elastic as it should be. I would therefore recommend that the remainder of the Gold Standard Reserve be utilised in the cancellation of the "Created Securities" in the Paper Currency Reserve.

8. Having given my views on the nature and form of the change I will now discuss the question next in importance, namely, "the ratio between gold and rupee." As a result of war operations there is not a single country with a Gold Standard which was able to keep its pre-war gold parity. Some of them have erred from it by such a large margin that it is now beyond the capacity of many to approach it with any degree of certainty. But howsoever impossible and impolitic the task, the hankering for a return to the prewar parity seems to be universal. There is but this difference between India and the other countries. The other countries have yet to reach the pre-war parity. India, on the other hand, has in fact overreached the pre-war parity. As a result of the difference the problems before India and the other countries are different. In European countries the problem is one of deflating the currency, i.e., appreciating it; in other words of bringing about a fall in prices. In India the problem becomes one of inflating the currency, i.e., depreciating it; in other words of bringing about a rise in prices. For a change from 1*s* 6*d*. gold to 1*s*. 4*d*. gold means this and nothing else. Should the currency be inflated to reach back the pre-war parity ? There are some people who are under the impression that the restoration of pre-war parity would give justice and would also give us the old price level to which we were so long accustomed. Both these views are fallacious. First : the restoration of pre-war parity is not a restoration of the pre-war price level. For it is to be remembered that 1*s*. 4*d*. gold in 1925 is not the same thing as 1*s*. 4*d*. gold in 1914 if measured in terms of purchasing power. The same ratio of exchange does not necessarily mean the same level of purchasing power. The ratio between two currencies may remain the same though their respective volumes have undergone enormous changes, provided the variations in volumes are equal and in the same sense. This is exactly the result of a mere nominal restoration of the pre-war parity. If by restoring pre-war parity is meant the restoration of the pre-war level of prices then

the ratio instead of being lowered from 1*s.* *6d.* in the direction of 1*s.* *4d.* must be raised in the direction of 2*s.* gold. In other words instead of an inflation there must be a further deflation of the currency. Second : the restoration of pre-war parity even nominally would be unjust. As a standard of deferred payment a currency should not disturb monetary contracts. If all debts now existing had been contracted in 1914 before the war, ideal justice would clearly require the restoration of the pre-war ratio. On the other hand if all existing contracts had been entered into in 1925 justice would require us to keep to the ratio of 1925. Two things must be borne in mind in this connection. Existing contracts include those made at every stage of preceding depreciations and appreciations and to deal fairly with all would demand that each one should be treated separately—a task impossible by reason of its complexity and enormity. Existing contracts are no doubt of various ages. But the great bulk of them are of very recent date and probably not more than one year old; so that it may be said that the centre of gravity of the total contractual obligations is always near the present. Given these two facts the best solution would be to strike an average between 1*s.* *4d.* and 1*s.* *6d.,* and to see that it is nearer 1*s.* *6d.* *and* away from 1*s.* *4d.* This is substantially the view of Prof. Fisher, who observes: "The problem of a just standard of money looks forward rather than backward : *it must take its starting point from the business now current, and not from imaginary pars before the war.* One might as well talk of restoring the original silver pound or returning to the monetary standards of Greece and Rome." In short, in matters of currency the real is the normal and therefore just.

9. As regards the effects of a rising and falling rupee on trade and industry the point often sought to be made is that low exchange confers a bounty on trade and industry. But this is not the important point. The more important point is, supposing that there is a gain arising from low exchange, whence does this gain arise ? It is held out by most business men that it is a gain to the *export trade* and so many people have blindly believed in it that it must be said to have become an article of faith common to all that a low exchange is a source of gain to the *nation as a whole.* Now

if it is realised that low exchange means high internal prices, it will at once become clear that this gain is not a gain to the nation coming from outside, but is a gain from one class at the cost of another class in the country. Now the class that suffers is the poor labouring class, which pays the bounty to the richer or the business class. Such a transference of wealth from the poor to the rich can never be in the general interest of the country. I am therefore strongly opposed to high prices and low exchange, and no righteous Government should be party to such clandestine picking of the pockets of the poorer classes in the country.

10. I now come to the question of providing for the seasonal needs of the money markets in India. A currency system should be stable and elastic, and it is for this reason more than any other that the currency in many countries is a compound of metal and paper. The former is intended to give steadiness and stability and the latter elasticity. Unfortunately in India the plan of the paper currency is not contrived to give it elasticity. In England under a similar paper currency the inelasticity is made good by the development of what is called deposit currency which is issued against good commercial paper. Owing to a variety of causes deposit currency has failed to take root in India and there has been consequently no mitigation of the inelasticity of the paper currency of India. We should therefore make greater provision in our paper currency reserve whereby it could be made possible to convert good commercial paper into currency best suited to the needs of seasonal demands.

2

Copy of the Memorandum* circulated to Witnesses in India by the Commission

The following memorandum, indicating the main questions which will come under the consideration of the Royal Commission on Indian Currency and Finance under its terms of reference, is published in order to assist intending witnesses in the preparation of their evidence. It is not to be regarded as exhaustive, nor is it desired that each witness should necessarily attempt to deal with all the questions raised :—

(1) Is the time ripe for a solution of the problems of Indian Currency and Exchange by measures for stabilisation of the rupee or otherwise ?

What is the comparative importance of stability in internal prices and in foreign exchanges ?

What are the effects of a rising and a falling rupee, and of a stable high or low rupee, on trade and industry (including agriculture) on national finance ?

(2) In relation to what standard and what rate should the rupee be stabilised, if at all ?

When should any decision as to stabilisation take effect ?

(3) If the rate selected differs materially from the present rate, how should the transition be achieved ?

(4) What measures should be adopted to maintain the rupee at the rate selected ?

Should the Gold Exchange Standard system in force before the war be continued, and with what modifications, if any ?

What should be the composition, size, location, and employment of a Gold Standard Reserve ?

(5) Who should be charged with the control of the note issue, and on what principles ? Should control or management be

*Report of the Royal Commission on Indian Currency and Finance, Vol. III, Appendix 95A, p. 612.

transferred to the Imperial Banks of India, and, if so, what should be the general terms of the transfer ?

(6) What should be the policy as to the minting of gold in India and the use of gold as currency ?

Should the obligation be undertaken to give gold for rupees ?

(7) By what method should the remittance operations of the Government of India be conducted ?

Should they be managed by the Imperial Bank ?

(8) Are any, and, if so, what, measures desirable to secure greater elasticity in meeting seasonal demands for currency ?

Should any, and, if so, what, conditions be prescribed with regard to the issue of currency against hundis ?

(9) Should any change be made in existing methods for the purchase of silver ?

Note.—The above questions were circulated to witnesses in India. As the result of the oral and written evidence received in India, the relative emphasis to be laid on the various matters dealt with has become clearer, and accordingly the attached memorandum and supplementary list of "Questions to be asked by the Chairman" have been prepared for the information of witnesses.

3
EVIDENCE*

Before the Royal Commission on Indian Currency and Finance on 15th December 1925

Dr. B. R. Ambedkar, Barrister-at-Law, called and examined.

6047. *(Chairman.)* Dr. Ambedkar, you are a Barrister-at-law, and you have been kind enough to furnish the Commission with a memorandum in which your recommendations as regards the Indian currency system are set forth in detail. I think you have also been nominated as one of the representatives of the Institute of Social and Political Science ?—Yes.

6048. Whose opinions have been set forth in another memorandum ?—Yes, that is so.

6049. I understand that you are a close student of these questions ?—I was 2 years before, but since I have been practising of course I have not been able to give sufficient attention to the very recent developments in currency and so probably my facts and figures might sometimes be rather out of date, but I should be able to tackle any point from the theoretical side of the subject, I presume.

6050. You have been a student of political science ?—I was a Professor at the Sydenham College of Science for two years and I have written a book on the Problem of the Rupee.

6051. I should like to ask you a few questions to elucidate a few individual contributions which you make to the subject in the course of your memorandum. In sub-paragraph(i) of paragraph 2 you commence with the statement : "A pure gold standard is stable because the value of gold in circulation is so large" and so on. What are you referring to as "a pure gold standard" in that connection ?—A pure gold standard means a gold currency as the standard of value.

6052. A currency consisting of gold ?—Largely.

6053. Supplemented by some form of token currency ?— By some form of token currency, yes.

*Report of the Royal Commission on Indian Currency and Finance, Vol. IV, Minutes of Evidence, pp. 313-22.

6054. In so far as your opinion is based upon experience, can you refer to any instance in which a country has had a gold standard system with a large proportion of the circulation consisting of gold coins ?—I may refer for instance to a country like Germany, and barring for instance the deposit of currency in England I should also cite the case of England.

6055. In both those cases we must recognise that the actual proportion of the circulating medium which consisted of gold was comparatively small ?—May I say just one thing ? What I want to emphasise there is that the new additions to the supply are so small in comparison with the existing volume in circulation that the new supply does not make much difference to the price level. That is what I really want to say there in that paragraph : but when you have a currency which is merely regulated by the will of the issuer, the issuer may add a new supply to the existing stock of such an amount that he may disturb the price level once established.

6056. The new conditions there referred to are, I take it, the increment of currency rendered necessary by the regular expansion ?—No; I simply say productions of the mines when I talk of new additions to the gold supply.

6057. Then you are dwelling there upon the feature that the annual additions to the quantity of gold in the world are so small ?—That it does not cause any upheaval in the price level to any appreciable extent.

6058. In what respect does that serve to distinguish between any form of currency where the internal unit is related in stability to gold ?—I do not quite follow.

6059. In what respect does the circumstance as to the small proportionate annual addition to the world's gold supply to which you refer serve to distinguish, as regards this matter of stability, between a currency based upon gold in circulation, and a currency based upon the gold exchange standard ? That is the second part of your paragraph ?—There I say that when you start with a certain given price level and if your issue of new currency is entirely dependent upon the will of the issuer, then he may add such a volume of currency to the existing stock that he may disturb the price level materially. There is nothing to prevent him from doing that. May I give, for instance, an illustration : suppose a government was bankrupt government and it wanted to finance certain of its departments, then it can very easily issue for instance, a token currency of any sort and add to the existing volume of currency as almost all the belligerent countries have done.

6060. Now let us assume a country with a currency of a certain amount of gold in circulation, supplemented by notes in circulation; that is one proposal, I understand, in regard to the point to which you are leading up ?—Yes, in a certain way.

6061. And, on the other hand, a currency based upon a gold exchange standard. Will you expand your recommendation by helping the Commission on this point : why this possibility of what is really inflation is more impossible when you have gold in circulation than when you have a pure exchange standard ?— It is this : the fact that you have the liability of converting your paper currency into gold under a gold currency with paper in circulation is a means whereby the paper currency is kept within limits. You cannot add more paper currency to your circulation than what your reserves for convertibility would permit. But where under the gold exchange standard, as we have had in India, there is no liability upon you to convert your circulating media into gold you are free to issue as much as you like.

6062. Supposing (I start with a supposition) that you were to accept an obligation to convert your internal currency under an exchange standard into gold or the equivalent of gold in a foreign currency, would that, in your opinion, put the two systems in the same position as regards their capacity for resisting inflation?—It depends upon what kind of convertibility you adopt.

6063. I am supposing the acceptance by the currency authority, whatever it was, of a legal obligation to convert the internal currency on presentation into gold or the means of obtaining gold in a foreign currency in a gold standard country ?—If your obligation is to accept to pay gold on tender without question then I think that would be sufficient. If I may say so, I mean that convertibility is like conscience and it might be of various degrees; and its efficacy to control the volume of currency would depend upon what kind of convertibility you have. If your convertibility is only for the purpose of foreign exchange then my submission is that that would not be a sufficient limitation on the issue of currency.

6064. If the obligation is such as that to which you have just referred, an obligation to convert the internal currency into a means of international payment, either gold or foreign currencies based on gold, why, in your opinion is that not an adequate means of preventing this danger of the inflation of currency with which we are dealing ?—Because a foreign exchange is not necessarily an indication of internal inflation. For instance, in our own experience in India it has been found out, and it has been found out I think by Professor Keynes, that although the rupee remained at the ratio of 1s. 4d. for a long time, the level of prices in India and the level of prices in England were very different. Exchange cannot be said to be in complete harmony with the whole of the price level of a country. Exchange affects only such things as enter into international trade, and everything would really depend upon what is the volume and what is the ratio of the goods that enter into international trade and goods that did not enter. If the country is so situated that its internal trade is much larger than its external trade, in fact, if its external trade is insignificant …………

6065. What do you mean by the internal trade being larger than its external trade ?—I mean that all the goods or all the transactions of a country are not meant for the purpose of foreign trade. In fact a country may have very little foreign trade and consequently the valuation of goods that do enter into foreign trade may not affect the valuation of goods that do not enter; the relations between them may not be very close.

6066. Let me generalise the question somewhat and put it in this way : whether you have a gold standard with notes and gold in circulation, or whether you have an exchange standard by which the internal currency is converted into external, is not the volume of internal currency in both cases controlled by the preservation of a certain ratio between the reserves and the internal token currency outstanding, and is it any easier to ensure the maintenance of that due relation in the one case than in the other ?—I have been thinking more of prices rather than of exchange ratios. I quite admit that the exchange ratio between two currencies might remain the same and yet the internal price levels in the two countries may differ.

6067. Which two countries ?—Any two countries; take for instance England and India; the ratio between gold and the rupee or sterling and the rupee taking the sterling as equivalent to gold, may remain the same; in fact it did remain the same for a long time; but taking into consideration the price level in the two countries, they did differ; although I admit that after some time the internal price level will assert itself and bring the fofeign exchange ratio in line with itself.

6068. I think you are going a little in advance of the actual point with which I was dealing in my question, although no doubt you are referring to matters which are very relevant. Now let me put it from another point of view. As a matter of fact, if we consider countries in which there has been a currency system more approximate to that which you recommended than India has ever seen, have those countries under the stress of necessity ever felt the slightest difficulty in inflating when they felt the need to do so ? Let me instance what occurred in gold standard countries in the war ? No; as I say, gold itself may be subject to inflation. It was as we found in America itself, subjected to inflation on account of the enormous quantity of gold in circulation then. Might I put it in this way ? That convertibility for the purposes of foreign exchange is insufficient; that is the point I am driving at. Convertibility, if it is to be an effective convertibility, must be convertibility without question; it must be convertibility for all purposes, although if I may just say so I am not in favour of a convertible currency, as you will see from my memorandum.

6069. Possibly a certain confusion may be introduced by the analysis of convertibility into internal and external convertibility. What is essential, is it not, in a sound system of currency, now that gold is to be once more apparently accepted as the world's international payment, is that the unit of internal currency should be stably related to a definite gold value ?—I do not quite accept that; it may be stable for international purposes ; it might not be stable for internal purposes.

6070. I do not think I managed to make my question quite clear. I understand what is desired by you in your recommendations is that the unit of currency which is used internally should be stably related to a gold value ?—I am really more for the use of gold. I am opposed to any kind of system which will economise gold under the present circumstances. Because I think that economy of gold is incompatible with security of price. My standpoint is very different from the standpoint of other people. I may be a little barbarous in my view.

6071. Not at all. Let us examine what your real idea is. What is your ideal to be attained in the organisation of the currency of a country ? It is not that the internal unit should be stable in relation to gold ?—Oh yes, it should be stable—not in relation to gold but stable in terms of commodities.

6072. By what methods do you recommend that India's internal *currency* should be stabilised, that is, in relation to what, and, secondly, by what methods ?—It should be stabilised more in relation to commodities rather than to gold, which is used only for purposes of internal trade. And I say it should be done by stopping the coinage of rupees altogether, and prescribing the use of gold.

6073. If we reject gold as a standard of reference for the internal currency, what other standard of reference are we to adopt ?—That I have given here. That we should either go to the Compensating Standard of Professor Fisher or to the Tabular Standard of Professor Jevons. If you do not want to use gold and economise gold, then my submission is that you should go to one or other of those two.

6074. I am not sure that I am very intimately acquainted with Professor Fisher's standard, but are these both the same sort of proposals ?—They are very much the same except that Professor Fisher's Compensating Standard—they are really what I should say, I mean, the two sides of the same medal, so to say. Professor Fisher would, for instance, alter the metal in the gold unit according to a certain index number, and Professor Jevons would allow more units to be given or less units to be given according to a certain index number. But I think those two are too complicated. I personally believe that a gold standard for all practical purposes is sufficient.

6075. Returning to what is practically possible, you are of opinion that the value of India's currency unit should be determined in reference to a certain quantity of gold ?—No, my submission is that India should have gold in currency. Gold should not only act as a unit of reference.

6076. Let me pass from that and ask you another question. Let me now deal with the view which you advance, which I understand is best expressed in paragraph 4 of your memorandum, sub-paragraph (2), where you say : "The whole world is suffering from a continuous rise of prices owing to the depreciation of gold. Anything, therefore, that will tend to appreciate gold will be to the good ; and if gold is to appreciate there must be a larger use of gold as currency." If I understand the precise force of that opinion, it is that the gold exchange standard tends to economise the use of gold, and that what is prudent and advisable is not that the use of gold should be economised and therefore that the gold exchange standard is bad?—Yes.

6077. And that is based upon the view which you take as to the future relation between the demand and the supply of gold in the world ?—Yes.

6078. You are of opinion that the future supply of gold is likely to grow in relation to the demand ?—No, not grow ; it will remain large because other people are not using gold, they are using paper, they are not in a position to use gold, so gold, even if it is not used, will remain large in quantity.

6079. First of all, a preliminary question in regard to that. Are you considering here the interests of India, or are you considering the service which India might render to the rest of the world ?—I have both in view.

6080. You think that, by doing that, India will be serving her own interests and the interests of the rest of the world at the same time. Do you agree with the not uncommonly held opinion that a gold currency is an expensive system ?—Yes, it is.

6081. So that we have to consider, in the first place, the possible disadvantage to India of the expense involved. What are the advantages to India to set against that expense ?—It is that you get a more stable standard, which as Professor Cannan says is knave-proof and fool-proof.

6082. Now, as regards the prospect. The force of this contention would depend, would it not, upon the realisation of your anticipations as regards the supply of gold in the world at large ?—Yes.

6083. Would you agree that, supposing on the other hand there was to be a relative decrease in the world's gold supply such as might tend to a general rise in world prices, that then it would be to the advantage of India, as of other countries, to economise in the use of gold ?—Well, my reply is that we need not be afraid of an indefinite contraction. We have always got methods for increasing currency. We must guard against indefinite expansion which is always possible.

6084. If you have pegged the Indian currency definitely to gold through the gold standard and there is a relative diminution in the world's gold supplies, then any general fall in prices which must result would make itself felt in India also ?—Yes, but that could be guarded against by increasing our paper currency or otherwise by manipulating the paper currency.

6085. Is not that sacrifice very characteristic of the gold currency system, for which you yourself have selected that system ?—No, I am making gold the currency simply because I want to avoid the possibilities of indefinite expansion. As I say, you can always guard against an indefinite contraction. Falling prices can always be prevented.

6086. Now let me ask you a question as to the opinion you have formed that anything that would tend to appreciate gold would be to the good. Have you been able to arrive at any statistical estimates as to what the future of the relation between the supply and the demand of gold will be in the course of years to come ?—Well, in my investigations I did some of them in 1923, when I was writing the book I had occasion to read some articles which appeared in the Harvard Business Barometer Series and I rather get the impression that there was no likelihood of any fall in the production of gold. And besides, my point is this, that the countries of the world are using so much paper that whatever gold supply we have is really very large. Those countries therefore that can avoid economising gold might as well do it to their own benefit and to the benefit of the rest of the world.

6087. I am not quite sure that I follow the latter part of your reply ?—What I say is that although the production of gold may not be increased physically from the mines, yet the use of substitutes for gold in modern days is on such a vast scale that the quantity of gold in the present circulation might appear to be large enough for a long period for the transactions of the world even without new additions from the mines.

6088. You have no more statistical calculations which you would care to put before the Commission as to your estimate of the future supply of gold ?—No, I have made no estimates.

6089. This is a matter, of course, which is of great importance for the consideration of the Commission, so let me put to you one or two estimates that I have been supplied with from other sources. These are estimates as to the effect upon general gold prices of the movement of the relation between the demand for gold and the supply of gold for a period of years. They are forecasts made at various dates by authorities, and they are referred to the year 1930. What is done is to measure the effect of the gold supply upon prices by trying to forecast the general level of prices in 1930 by reference to 1913 as the 100 standard, and thus to see what the future of the world in this regard is. I have here an estimate of Sir James Wilson, made in 1921, who estimates that the result of these factors will be that the general price level in 1930 will be stable at 115. That is a substantial fall, you see from the present figure which is round about 158. Then there is that estimate to which you have already referred, the Harvard Business Barometer, in 1922, which estimates that in 1930 the general price level should stand about

150, and should be stable at that figure. Then there is Professor Gregory, who makes an estimate in the near past, May, 1925, who estimates that the general price level will stand about 162 in 1930 and should be rising at that figure. So he is the one who is most of your opinion. And, finally, there is Mr. Joseph Kitchen, an eminent authority, who in July, 1925, made a forecast that in 1930 the general price level should be expressed by a figure of 120 and should be falling at that figure. Of these four attempts to forecast the position, three anticipate that the prices will have fallen at that time ; two believe that they will be stable at that lower level; one, Mr. Kitchen, believes that they will be falling at that lower level, and only one believes that they will be higher than they are now and rising. I will put it in this way. In view of these very careful attempts to estimate the situation does it not teach us the necessity of exercising great caution in making the assumption that it is unnecessary, in order to maintain prices stable, to economise the use of gold ?—I am rather in favour of falling prices rather than rising prices, and I am glad if they do fall and fall rapidly too. I think it is good for the nation that there should be a fall in prices rather than a rise in prices. So these estimates do not really deter me from making my proposal.

6090. Nevertheless, there is some different basis for your opinion ?—I take those opinions for what they are worth. I am not in a position to contradict them because I have never made any estimates. But somehow this is my belief that already the existing amount of gold is so large and the capacity of the countries of the world to use that currency, any currency, is so small that the supply of gold is likely to remain larger for a long period, and there is, in my opinion, not much chance of prices falling.

6091. Then there is a further question. I should preface it by saying that you are dealing here with the abolition of the exchange standard ?—Yes.

6092. In paragraph 5 you say, "The gold standard reserve is peculiar in one respect, namely, this : the assets, *i.e.,* the reserve and the liabilities, *i.e.,* the rupees are dangerously correlated by reason of the fact that the reserve cannot increase without an increase in the rupee currency." I am going to ask you to expand that a little, and in order to show you what I think needs expansion, I would put these possible questions by a critic. Might not a critic say : you say that the reserve cannot increase without an increase in the rupee currency, and this critic might say, why should it ? He would say, if the rupee currency cannot increase without an increase in the reserve, would that not be a most desirable state of affairs ? Have you followed my point ?—I will explain in this way : for instance, there are the bank issues and the reserves of a bank. If you compare, for instance, the bank reserves with the bank issues and the currency and the gold standard reserves of the Government of India with the rupee issues, you will see this : that when the bank issues are limited, the reserves increase, and *vice versa*. But here you cannot, for instance, reduce the rupee currency without also reducing your reserve.

6093. My point is this. I say, all right, but look at it from the other point of view. However that may be, what appeals to me is that you cannot reduce your reserves without reducing your rupee currency, and that is what I desire to effect ?—Quite true, I admit that. But my submission is this. What is the use of a reserve, really ? Suppose you have an enormous reserve and you have also an enormous rupee circulation. Does the fact that you have a large reserve in store in some safe in any way affect the value of the rupee ? It does not. The value of the rupee will be affected simply by its quantity and the volume of circulation. Its value has nothing to do with the reserve at all. Backing absolutely has no effect on the value of currency except, of course, in times in which it is disorganised. It may lead to some confidence in that currency, but I submit that when currency has come to such a pass that people have to have some confidence, I say that currency has been absolutely inflated.

6094. Accepting no doubt, the proposition that the value of the currency will be ultimately decided by its total volume in relation to the business ?—What I say is this, that this relation is so dangerously correlated, and I am sure you cannot indefinitely go on coining rupees simply because there is a gold reserve. If you go historically into this matter, my submission is that such has really been the case. In the history of India people who have had to deal with currency were so much infatuated by the idea that they must have some reserve that the coinage of rupees was really initiated for that purpose. The coinage of rupees in India in 1893 and 1898 when the Fowler Committee's Report was brought into operation and reforms were introduced is a point, Sir Edward Law was so much obsessed by the volume of rupees in circulation that he felt that there must be some reserve, and it was on this ground that he proposed to the Secretary of State that the Government should be allowed to coin rupees. If he knew properly that the value of rupees would maintain themselves if they were limited in volume, then he would certainly not have gone on increasing the currency. I am recommending simply what the Government of India recommended to the Secretary of State in 1893.

6095. To turn to the immediate point : the function of a reserve under these conditions is to maintain stability, is it not ?— I think a reserve ought not to be there. A currency is something like any commodity which maintains its value simply because of the law of supply and demand.

6096. Do you reject the proposition that the function of a reserve is to maintain stability ?—Yes, I do. I do not think a reserve has anything to do ; in fact, a reserve maintains itself when the currency is limited ; it does not maintain the currency.

6097. Let us now consider your practical proposals for the reform of the currency. You say :—"The following, then, are the requirements of my plan for the reform of the Indian currency :—

(1) Stop the coinage of rupees by absolutely closing the mints to the Government as they are to the public. (2) Open a gold mint for the coinage of a suitable gold coin. (3) Fix a ratio between the gold coin and the rupee. (4) Rupees not to be convertible in gold and *gold not to be convertible in rupees,* but both to circulate as unlimited legal tender at the ratio fixed by law." A question which does suggest itself to a practical man

there is, under those circumstances, how are you to maintain the ratio between the gold coin and the rupee, and how are you to prevent one going to a discount or a premium in comparison with the fall in accordance with the balance of the country's trade ?—Well, the rupee will maintain its value by reason of the fact that it will be limited in volume ; no more issues of rupees are to be issued.

6098. What is to prevent it going to a premium ?—It cannot at once go to a premium because it has a substitute in gold. Rupees are not to be convertible in gold. The rupee cannot go to a discount because it is limited in volume. No more rupees are to be coined. The rupee cannot go to a premium because there is the alternative of a gold coin functioning as currency.

6099. Then you say :—"But there is just this chance : that the existing volume of the rupee currency is so large that when there is a trade depression it may become redundant and may by reason of its excess lose its value. As a safeguard against such a contingency, I propose that the Government should use part of the gold standard reserve for reducing the rupee currency by a substantial margin so that even in times of severe depression it may remain limited to the needs of the occasion.' How would that operation take place ?—You simply call in rupees and not issue them again—by the process of calling in rupees up to a certain limit.

6100. So that the rupees would not, to that extent, be convertible into gold ?—It will never be convertible into gold, until the limit is reached, so that it will never be in excess even in times of depression—the rupee will not be convertible into gold and gold will not be convertible into rupees. Even as it is, I am not very much afraid that the rupee will go to a discount, but there is just this chance that it might and I therefore propose that safeguard.

6101. Coming then to the question of the ratio, you say : "In European countries the problem is one of deflating the currency, *i.e.,* appreciating it; in other words, of bringing about a fall in prices. In India the problem becomes one of inflating the currency, *i.e.,* depreciating it; in other words, of bringing about a rise in prices. For a change from 1s. 6d. gold to 1s 4d. gold means this and nothing else. Should the currency be inflated to reach back the pre-war parity ?" Then you point out that the restoration of the pre-war parity is not a restoration of the pre-war price level because there is a change in gold prices ?—Yes.

6102. Further, you point out that : "Two things must be borne in mind in this connection. Existing contracts include those made at every stage of preceding depreciations and appreciations, and to deal fairly with all would demand that each one should be treated separately—a task impossible by reason of its complexity and enormity." I understand that the opinion which you emphasise there is that we have been passing through a period of violent fluctuations in the value of the rupee, that at every stage contracts have been entered into, and that it is impossible, as it were, to fix upon any, definite ratio which will do justice as between all these contracts made at the varying levels ?—Yes.

6103. Then you say that the great bulk of the contracts have been of recent date ?—Well, my information is really based upon a small note made by Professor Cannan in one of his articles in the "Statistical Journal."

6104. Are there any statistics available which would give us a correct estimate of the number of contracts ?—I think it is a guess for what it is worth ; a question of commonsense.

6105. Then you say, "It may be said that the centre of gravity of the total contractual obligations is always near the present." Those premises lead you to the following conclusion, that, given these two facts, the best solution would be to strike an average between 1s. 4d. and 1s. 6d. and say that it is nearer 1s. 6d. than 1s. 4d. I am not sure that I quite follow that. Your trend of reasoning would rather have led me to suppose that you would finally turn out to be a supporter of the 1s. 6d. rate ?—I say it may be nearer 1s. 6d. and away from 1s. 4d.

6106. What ratio would you suggest ?—It is difficult. Of course, I think 1s. 6d. would be just as good. It could not inflict any very great hardship.

6107. Then, finally, as regards the question of a rising and falling rupee ratio, your opinion is summarised in paragraph 9. You say : "Now if it is realised that a low exchange means high internal price, it will at once become clear that this gain is not a gain from one class at the cost of another class in the country." Which class gains and which class loses ?—The business class gains ; the labouring class does not. The price of all factors of production does not change. Wages do not change as rapidly as price and these are the classes who suffer.

6108. Have you any suggestion to make, either from the theoretical or practical point of view, as regards the important provisions as to the currency arrangements to provide elasticity to meet seasonal demands ?—As I hinted, of course, very briefly, if we want to make our currency elastic for seasonal proposes, we must some how see that the commercial paper which has given rise for trade transactions is converted to currency. So that commercial paper should be made more a basis for the issue of the currency than Government bonds. I think it would be to the good of India if we adopt the proposals in the German Imperial Bank. They adopted, of course, more or less the English Banking Act of 1894 with variations so as to suit the seasonal demands.

6109. That is a provision for the extension ?—For the extension for the time being of paper issues under certain regulations.

6110. That is a provision, is it not, for the extension of the fiduciary issue ?—Exactly.

6111. In return for the payment of a proportional tax ?—Yes, I think it is a sufficient safeguard for both.

6112. *(Professor Coyajee.)* The chief merit of the gold standard is, according to you, that it places certain definite limitations against possible fluctuations ?—Exactly.

6113. But, of course, there are certain things, for example, the provision from the mines is not based on how much currency is required by a country ?—Yes ; I may say that I am in favour of a gold standard simply because compensating systems are not workable. If they are workable, I would at once reject the gold standard. I am not in love with it at all.

6114. Nor does the gold standard ameliorate the consequences of a trade cycle ?—No.

6115. Then there is only one point. In paragraph 5 you observe "I am necessarily in favour of the abolition of the gold standard reserve as being of no practical use for maintaining the stability of the currency." By analogy why not abolish the paper currency reserve also because the value of the paper depends upon its limitations ?—Quite.

6116. Would you abolish that ?—No, for this reason. Because we are not placing a fixed limit on the issue of paper. Under the scheme where I say we should abolish gold standard I am placing a definite limit on the issue of the rupees. In the case of paper currency, we have allowed the Government the discretion.

6117. Do you think that possible ? I will tell you why. Because with limited incomes and things like that, there is more scope as population increases for the use of rupee. Could you say for ever and for ever, we shall be coining gold and no rupees until possibility the quantity of gold in circulation will be ten times that of the rupee ? Would that be convenient to the country ?— I should think it would be. I would rather say that instead of using gold we use notes backed by gold. I do not mean that we should use gold from hand to hand.

6118. *(Sir Norcot Warren.)* Am I to understand from the latter part of paragraph 8 of your memorandum that you are inclined to the rate of 1s. 6d. rather than 1s. 4d. ?—I confess prediliction in favour of 1s. 6d.

6119. *(Sir Alexander Murray.)* There is one point, Dr. Ambedkar, which you referred to in answer to some questions put to you by the Chairman; you seem to suggest that the Government of India were somehow or other prepared to go on coining rupees simply in order that they may make profit between the bullion value and token value of the rupee. I want to know what you are referring to actually ?—I am referring to this : It is a historical bit of thing. When the Government of India, for instance, introduced reforms suggested by the Fowler

Committee, they felt that for a large circulation of the rupee they had not any reserve and the Fowler Committee in paragraph 60 of their Report suggested that if the Government coined rupees and keep profit to itself, that profit should be utilised as a reserve. Sir Edward Law who came on the scene in 1901, the period from which the coinage of rupees commenced, also felt that the volume of rupees was so large that some amount of reserve was necessary ; and I think he went on coining rupees sheerly because he felt that the reserve was wanted and the reserve could not be had in any other way except by coining rupees.

6120. You only *think* that ?—No, my point is this : I have read the despatch very closely and I feel that if Sir Edward Law had disclosed there that the rupee was coined to a premium because people did not want gold or any other thing to use in currency, then I could have understood that the rupee was coined in answer to the demand of the people. But there is not a single thing to that effect to be found in the despatch. He simply says that when we introduced reforms we did not take into account paragraph 60 of the Fowler Committee's Report.

6121. But he also, I think, in that despatch to which you refer laid down that there ought to be a gold reserve which estimated at 7 millions or something like that. Against this you say that he was issuing rupees ?—Quite so. Gold standard reserve is kept in gold. I say no reserve was wanted.

6122. You make a general statement here, Dr. Ambedkar, "Unfortunately there is abundant proof of such perversion in the history of the currency system in India. Already we have had foolish administrators who had been obsessed with the idea that a reserve was a very essential thing and who had therefore gone on issuing currency without any other consideration but that of augmenting the reserve" and you are now repeating it to the Chairman ?—I have used a much milder expression than that used by Professor Cannan himself in his book.

6123. But is it not the case that in 1895 that was actually suggested by a well-known Bombay financier and turned down by the Finance Member at the time ?—I find that in the despatch.

6124. One moment. In your book you actually give the name of the Bombay financier who suggested it and you give the name of the Finance Minister of the Government of India who turned it down ?—Yes.

6125. Then in your book you also give the name of a well-known politician who as recently as 1907-08 suggested the same thing and again it was turned down by the Government of India and as recently as 1919, you give a reference to another well-known economist. Then why do you repeat the statement to the Chairman that the administrators of the Government of India have not thrown overboard or turned down the suggestion when as a matter of fact you know that the administrators of the Government of India have turned it down repeatedly when it has been put forward by well-known Indian financiers ?—My reply to that is this : that somehow if you read the speeches in the budget delivered by every Finance Minister, for instance, I forget the names now, gentlemen who preceded Sir Edward Law; I think I can cite instances.

6126. Sir James Westland and Sir Clinton Dawkins ?—But they never agreed with that.

6127. No; it was suggested by an Indian to Westland who turned it down and again to Dawkins who turned it down ?— With due respect to your interpretation, Sir Edward Law did say that there should be gold standard sufficient to back all the rupees and the notes. I do not deny that. But I simply say this ; that other financiers stated that no reserve was wanted and the rupee would maintain itself and Sir Edward Law stated that the reserve was wanted and he coined rupees because he wanted the reserve. In fact, I have paid sufficient compliments to the training and the notions of Westland and Dawkins for turning down the proposals. I say they were right and Sir Edward Law was certainly wrong.

6128. Sir Edward Law did not say that he coined rupees in order to provide the reserve. He said that he should hold it as a backing against the issue. It is you that put in the interpretation that he did coin rupees for the other purpose ?—He says that in the despatch. Before the Fowler Committee there were sufficient proposals of having a gold reserve and the Committee found that they were very costly, but slightly hinted that if a reserve was wanted, it might be had by coining rupees. The two gentlemen who preceded Sir Edward Law did not think it was necessary. But Sir Edward Law said it was necessary and coined rupees. I am not making a general charge. I have given praise where it is due. I can give you also the reference.

6129. I can verify all your references. What do you want to find there ?—That although the recommendation of the Fowler Committee was there that the Government of India could provide itself with gold reserve by coining rupees, Westland and Dawkins refused to pay any heed to that proposition, because they firmly believed that gold reserve was not necessary and that the rupee being limited in quantity it could maintain itself. But Sir Edward Law when he became Finance Minister felt that a reserve was necessary.

6130. Westland was the Finance Member before ever the Fowler Committee reported. I think he was away when the recommendations were brought into operation and Dawkins was the member in office when the Fowler Committee reported. But both of them turned down the suggestion which came from Indian politicians ?—There is no difference of opinion on that point.

6131. The only difference is that you are imputing to Sir Edward Law that he coined rupees in order to create a reserve. I say that he did not; that in the actual despatch he said that there was a gold reserve, I think, of 7 millions ?—If so, there is a difference between us.

6132. *(Chairman.)* I cannot see what conceivable advantage it can be to anybody to increase a reserve for the fun of the thing ?—Exactly, and people are under very big notions that a reserve is wanted and without a reserve a currency cannot work. I think it a very common superstition. It is there.

6133. *(Sir Alexnder Murray.)* I will give you the reference, pages 276 to 278 of your book, "The Problem of the Rupee" ?—Yes, Westland was there when the reforms were brought into being, page 276.

6135. What date was that ?—It is the Budget speech of 1898-99 after the reforms were introduced.

6136. It was in 1894-95.—No ; Dawkins comes on the next page. My reference is to the Financial Statement for 1898-99 at page 276. Then the passage from Sir Edward Law occurs on page 278.

6137. Will you excuse me for correcting you. You said your reference was to the Budget speech of 1898-99. As a matter of fact the reference you have made is from the speech of 1894-95 ?— He was also Finance Minister in 1899.

6138. He turned it down in 1894-95 ?—I mean there was no material difference between the Herschell Committee and the Fowler Committee and I am sorry if you think I have made any vile allegation against the gentleman.

6139. *(Sir Alexander Murray.)*—All I am doing is quoting what you say in paragraph 5 of your statement. All I say is there is danger of anybody falling into that trap.

6140. *(Chairman.)* And you maintain that in your book you have vindicated these eminent statesmen ?—Yes.

6141. *(Sir Purshotamdas Thakurdas.)* In paragraph 8 you refer to various countries of the world as "hankering for a return to the pre-war parity" and you say it seems to be universal. Then you go on "There is but this difference between India and the other countries. The other countries have yet to reach the pre-war parity. India on the other hand has in fact over-reached the pre-war parity." Those other countries to which you refer have had their currency very severely depreciated during the war ?—Absolutely.

6142. Not the solvent countries ?—I think these countries also which are very near their old parity find it difficult to go back.

6143. For instance, which countries have you in your mind ?—Well, I am talking of the proceedings of the Genoa Conference, which I do not carry in my mind, but I think for instance a country like Italy. France was at one time within measurable distance of pre-war parity.

6144. France now is perhaps worst off of all; therefore you are there remarking a difference between India and other countries whose currency was severely dislocated during the war period and who have not yet been able to bring it round ?—My point is,even if we were in a position to go back within a measurable distance it would not be always wise or advisable to go back supposing we could.

6145. I will come to that later on ; I am only trying to point out to you that it may be said the comparison you are stating here between India and the other countries is one which cannot stand as far as currency problems and conditions are concerned. So far as the "could" is concerned, I mean the difference between whether we should and whether we could even if they (those countries with depreciated currencies) wanted to they could not go back ?—Very good; you have put it much better than I could have.

6146. Therefore if you compare India with the countries which got back to pre-war parity you find that those who could did go back to the pre-war parity ?—Yes, for instance England ; but there was also a strong current of opinion even in England that they should not.

6147. I mean in spite of the strong current of opinion you refer to they have reconciled themselves to the pre-war parity and you do not hear much complaint now about having gone back ?—I could not tell.

6148. You do not know, I see ; unless it can be said that those who went back made a mistake, there won't be anything particularly objectionable aganist those in India who want to return to the pre-war parity ?—No, I don't say that. I am really raising the question whether it is desirable.

6149. Now regarding the desirability of it, lower down you say the view is wrong ; you say both these views are fallacious. You say the restoration of pre-war parity is not a restoration of the prewar price level. Now do you think that exchange should be used as a lever for attaining price levels ?—No.

6150. Then, it does not appear to me very fallacious ?—No, I say this, although you cannot always say exchange and price level move together, yet ....

6151. Excuse me, my question was, do you suggest that exchange should be used as a lever for adjusting price levels ?—No, I do not say that.

6152. Therefore a change of ratio from that point of view was not desirable, as a lever for the adjustment of prices ?—Yes, it was not.

6153. No country has done it unless you can show that it was particularly desirable in the case of India as an exception ?—But it has happened in all countries.

6154. Which countries ?—All countries.

6155. If I may make my question clearer ……….. ?—I do not think your question was put very clearly.

6156. I sometimes do put my questions not very clearly, admit. Which countries which could attain to pre-war parity did voluntarily go past it in order to adjust their internal price levels ?— No, of course they did not do that.

6157. Therefore where is the fallacy ?—Fallacy in this sense ; some people in doing this imagine they are going back to the old price level. That is a fallacy, because 1s. 4d. in 1914 is not the same as 1s. 4d. in 1925.

6158. But I mean those who do not base the demand for 1s. 4d. on the question of prices at all, they would not be making that fallacy ?—No.

6159. Then lower down you mention another point, I think. "If by restoring pre-wa r parity is meant the restoration of the pre-war level of prices, then the ratio instead of being lowered from 1s. 6d. inthe direcction of 1s. 4d. must be raised in the direction of 2s. gold." Then you say "the restoration of pre-war parity even nominally would be unjust." What have you in your mind by the words "even nominally" ?—Without looking to the price level.

6160. I thought you yourself agreed.......?—Supposing now, in 1925,1s. 4d. is the ratio as compared to 1914, that would be only a nominal change because prices have certainly changed.

6161. Where is the nominalness in regard to those who ask for 1s. 4d. as being the pre-war rate ?—You are asking for a definite change from 1s. 6d. to 1s. 4d. I take my starting point, as I have stated at the end of the statement from what we find actually there. I say, "In short, in matters of currency the real is the normal." I therefore start from 1s. 6d. as the normal.

6162. Now supposing the exchange to-day, when we are discussing the thing, was 1s. 8d., I take it you would urge the same ground for 1s. 8d. being confirmed as you have for 1s. 6d. being confirmed ?—Yes.

6163. So whether exchange had gone up to 1s. 6d. or not the ground would prevail irrespective of what other countries have done ; and irrespective further of how that point was reached ?— May I just explain it in my own way ?

6164. If you please.—The way in which I look upon this problem is this. To-day we have 1s. 6d. That to my mind means a certain price level. If you want us to go back to 1s. 4d., it seems to me we have to raise our prices. Without increasing the volume of currency we certainly cannot reach 1s. 4d., it seems to me we have to raise our prices. Without increasing the volume of currency we certainly cannot reach 1s. 4d. gold. Therefore the complete question to my mind is, shall we raise our prices from what they are today, so that we can go back to 1s. 4d. ? Now I being a member of the labouring community, feel that falling prices are better. That is my view of the matter.

6165. Let me take it the other way. You say, as you put it, that, being a member of the labouring community, that means from the point of view of the labouring class it is undesirable ?—Yes, and I may go further and say that from the national point of view too falling prices are better than rising prices.

6166. Now I suppose you heard the arguments that are being advanced that a high exchange, an exchange which is worked up to a higher point than where it has been 15 or 20 years at a stretch is undersirable in the interests of the producer. What would you say to that ?—All that it means is a depression of profits. I do want to make a distinction,—I do not know how far people will appreciate that,—between depression of industry and depression of profits. I think that distinction was made by Professor Marshal in his evidence before the Gold and Silver Commission. There might be a depression of profits, that is to say, the enterprising class may not get all that they would get if prices were to rise ; but it does not necessarily follow.

6167. Excuse me ; cannot I refer to the producer ? We will come to the investor later if you don't mind. But what about the producer : in his case the higher the exchange the less the number of rupees available to him ?—It does not matter to him at all, because he supends it. His cost of production also falls ; therefore it makes no difference. If he got 15 rupees, and if the 15 rupees purchased a certain amount of goods, and if five years hence he got 10 rupees, and that 10 rupees purchased as much as 15 rupees before, the change is only a change of counters.

6168. When the adjustment is complete ? But until then there is disturbance ?—Yes.

6169. Now let us look at it as far as the present goes. You think that the average Indian cultivator rarely employs any labour and cultivates with his own hands ?—Well, I suppose he does employ a certain amount of labour.

6170. In the ordinary course, for the adjustment to be complete, you would expect that the wages he pays to his labourers also go down ?—Yes. I mean if he wants to get the same amount of profit, I would say yes.

6171. Very well, if the wages of the farmer's labourer have not gone down you would admit that to that extent the farmer has a smaller profit ?—Smaller profit, yes, I admit that.

6172. And in cases where the farmer is just able to make both ends meet he loses ?—No. He does not get profits, but he does not lose. Profit is something else ; it is surplus.

6173. Where a farmer or a class of farmers in a district make just enough to make both ends meet they would be losing, inasmuch as the labour charges have not gone down in proportion ?—I do not know how you define profit. I define profit as surplus income.

6174. After paying all charges of production ?—Yes.

6175. If in 1921 a farmer made both ends meet and in 1924 when exchange was stabilised at 1s. 6d. as far as his produce is concerned and his labour charges have not gone down, he would certainly make less ?—He would lose part of his profits.

6176. He will save so much less ?—I would stick to the word "profit."

6177. He will make less profit ?—Yes; there would be a depression of profit.

6178. To that extent of course the producer will be a loser ?— If you think that he had a legitimate right to that profit, then of course you would be right in saying that he loses ; but not if it was a merely differential gain.

6179. As 1s. 4d. it was merely a differential gain ?—Yes.

6180. Lasting for a period of 25 or 23 years ?—As I say it all depends upon how you define it.

6181. How would you define it yourself ? So long as he is able to recover all that he has spent in production I do not think that he would be a loser.

6182. And you would apply that test to every person ?—I would say that he has made both ends meet.

6183. Do you think that would be the maximum which the average citizen would like to apply in his own ease ?—I can give no opinion upon that, I am afraid.

6184. Now, you mention in paragraph 8 : "Two things must be borne in mind in this connection," and lower down you say : "Existing contracts are no doubt of various ages." What sort of contracts have you in mind there ?—Leases for instance : and other contracts also, such as building contracts and so on.

6185. How would they come in with the question of exchange ?—They are money contracts just the same ; they are all money contracts.

6186. Every contracts, then, you mean ?—Yes.

6187. If a man was putting up a house in a mofussil rural place for 4,000 rupees, that also would come under this ?—Of course ; it is investment of money.

6188. You have in mind everything that involves investment of money in the country ?—Yes ; it has purchasing power.

6189. Then you say : "Given these two facts, the best solution would be to strike an average between 1s. 4d. and 1s. 6d." Why did you mention an average instead of 1s. 6d. ?—I say so because in 1925 there may be some contracts which were made when the ratio was 1s. 4d. Some contracts may be still subsisting made at that period when the purchasing power was at the rate of 1s. 4d., and therefore to give justice to all I think that is the best way it could be done.

6190. What about contracts in the shape of debts incurred before 1914 ?—I do not suppose there are many existing now.

6191. You think that all these debts payable by agriculturists to sowers are paid within a certain period ?—My personal opinion is that no commercial contract extends for more than five years, and the proportion of those is very very small. There is no statistical information on this. Professor Fisher has made in his book certain calculations to that effect. He writes there that the rate of interest varies sympathetically with the prices ; so that the rate of interest bears a certain relation to the rise or fall of prices. He then comes to the conclusion that most contracts are very very recent commercially.

6192. You mean about India ?—I mean generally ; I do not know about India in particular; there may be something peculiar in India, but I do not know why it should be so.

6193. Do you think things in India may be different ?—I should not think so unless there was some evidence forthcoming that that was so.

6194. You think that the problems in India are the same as in the West ?—I do not see why they are not.

6195. It would surprise you if they happened to have been admitted to be otherwise ?—It would surprise me.

6196. Regarding the adjustment of price levels, do you think that the adjustment is anything near complete now, owing to the disturbance in the exchange rate from 1s. 4d. to 1s. 6d.?—There would be some disturbance; that would be detrimental to the wage-earners if we went back from 1s. 6d. to 1s. 4d.

6197. The disturbance from the lower to the higher rate from 1s. 4d. to 1s. 6d.......?—Has been favourable to the labouring classes.

6198. Is that adjustment complete, or is there still any mal— adjustment of that ?—I could not say ; that is a matter of statistical investigation which I have not entered into ; but I suppose exchange has been stable at 1s. 6d. for a long time.

6199. How long do you think it has been stable ?—I cannot exactly say ; but certainly it shows signs of stability.

6200. How long ; have you any idea ? Some witnesses have said six months, some eight months.......?—I think somewhere there.

6201. Do you think that six or eight months is a sufficient period for judging this stability ?—I say due weight should be given to it, and therefore you should strike an average.

6202. But I think you have said in the *course* of your oral examination that you would be prepared to agree to 1s. 6d. ?— Yes, because it is nationally better; it would not inflate. That is what I say. If, even after 1s. 6d., the process of adjustment was not complete so as to enable us to say 1s. 6d. was really the level needed, I say we should establish it at that.

6203. Regarding the adjustment in the industries here, have you any idea at all ? Can you give us any opinion ?—None whatever.

6204. *(Mr. Preston) :* In case there should be any misunderstanding with regard to some of the answers which you gave to Sir Alexander Murray, in connection with that unfortunate reserve, the gold standard reserve, it may be well if we put on record some actual facts: the gold standard reserve came into being in the year 1901 and it resulted from profits earned from the previous April in 1900. The balance in the reserve to-day is 40 millions sterling, is it not ?—Yes ; I think it is about that.

6204A. The Finance Minister when he made his report on currency last year made the following statement: "As will be seen from the statement, the bonds and stock purchased are due for repayment within the next few years. Of the amount now standing at the credit of the reserve, £ 27,449,950 represents profits on coinage and the remainder represents accumulated interest on securities held in the reserve." You say that this reserve cannot increase unless there is more rupee coinage. How has that increase of one-third in the last three years come about ?—By interest on investments.

6205. Then if the interest on that reserve is kept being added to it, you are increasing that reserve for a useful purpose without having to adopt those methods which you so very strongly deprecate ?—Yes, undoubtedly.

6206. Just one more point as to the usefulness of that reserve. It will be within your knowledge that in the period of the world's depression in 1908 that had it not been for that very reserve we could never have maintained our external parity; you admit that ?—Yes.

6207. Thank you ?—Although, of course, something has gone in to which I ought to take exception—by saying that I am in favour of increasing the gold standard reserve by investments. If a reserve is invested there is no reserve at all.

6208. *(Sir Reginald Mant.)* I understand your chief desideratum is stability of internal prices ?—Quite.

6209. And you hold that that stability will then be linked to gold prices, will they not ? They will vary with the gold prices ?—Yes.

6210. Internal prices will then be linked to gold prices, will they not ? They will vary with the gold prices ?—Yes.

6211. Now a gold exchange standard without a gold currency has been recommended by several people with the same object in view ; but I understand you to hold that it will not achieve that object ?—I think it has not, so far as India is concerned.

6212. I was not speaking of what has been done in the past; it has been represented to us that if a gold exchange standard were made automatic it could secure those objects ?—I do not know ; there may be some people who hold that view, but I cannot see how it could be held.

6213. I want you to explain why a gold currency would achieve it and the gold exchange standard would not ?—My first ground is this : that the exchange standard depreciates gold and makes it therefore useless as a standard of value. A gold exchange standard causes a redundancy of gold by its economy.

6214. Ought you not to put it the other way, and say that if we introduce a gold currency here we shall appreciate gold ; would not that be a more correct way of putting it ?—You might put it that way, yes. Therefore under the present circumstances gold would behave as a better standard of value. My next submission is this, are we really effecting economy by the exchange standard ?

6215. I was not raising the question of economy. I was trying to get at the reason for your holding that nothing but a gold currency would effect your object of keeping internal prices linked with gold ?—Stabler than they would be otherwise is what I said. If we adopted a gold standard our prices would be more stable than they would be under an exchange standard. I did not say that under a gold standard they would be perfectly stable because gold itself is not a perfectly stable standard of value ; but certainly it would be more stable than under an exchange standard.

6216. Because simply we should be using more gold ?—Yes.

6217. That is your only reason for differentiation ?—Yes.

6218. *(Sir Maneckji Dadabhoy.)* Let me proceed a step further with regard to the answers you gave to Sir Purshotamdas Thakurdas : in paragraph 8 you say "Existing contracts are no doubt of various ages ; but the great bulk of them are of very recent date and probably not more than one year old ; so that it may be said that the centre of gravity of the total contractual obligations is always near the present." When you are referring to this matter, I understand you are speaking without any definite statistics ?—Yes ; I simply say there has been a calculation made by Professor Fisher.

6219. You state this as a sort of generalisation ?—Yes. I said I had no definite information.

6220. When you speak of a centre of gravity of the total contractual obligations being near the present, it is not a very definite term. Would not that centre of gravity come within the circumference of twelve months ?—Yes, somewhere about that; because I have said one year old.

6221. So that, if a certain ratio prevailed twelve months ago, we would be, according to your reasoning, as much justified in taking that as 1s. 6d. ?—Quite ; yes.

6222. So you would be as much justified in taking that ?—Yes.

6223. Then when discussing this matter and when you expressed your election in favour of the 1s. 6d. ratio. I understand you founded your opinion on the dictum of Professor Fisher ?— Yes.

6224. Now we have got this dictum of Professor Fisher before us ; the words used are :— "The problem of a just standard of money looks forward rather than backward ; it must take its starting point from the business now current, and not from imaginary pars before the war." ?—Exactly.

6226. Don't you think that Professor Fisher when he laid down that dictum had European conditions before him only ?—Yes, but that would apply almost to any country. It is a general proposition.

6226. My question is did he not have European conditions in view only when he said that ?—I cannot say.

6227. *(Chairman.)* The witness replied that he thought it would apply to any conditions ?—Yes, it is a genera! proposition.

6228. *(Sir Maneckji Dadabhoy.)* Is that conclusion justified by these expressed words ?—I should think it is.

6228A. YOU think it is ?—He says further, he does not only refer to the war,—he says : "One might as well talk of restoring the original silver pound or returning the monetary standards of Greece and Rome."

6229. Now, you know very well that this ratio of 1s. 6d. has continued in India for the last 16 months only. Now, if we take this period 16 months in Indian conditions, what would you say when you think of any imaginary pars before the war ? Do you think in India a period of 16 months would make any substantial difference in coming to a conclusion ? He is referring to the imaginary pars before the war; he takes a longer period ?—No, no. He is simply referring back to 1914, to the parity which existed in 1914. I say, if according to information 1s. 6d., has been in existence for 16 months, then I say it ought to be confirmed.

6230. Yes. But if previous to that, with a brief interval of some years, it has ranged equally for 20 years at 1s. 4d. you would brush aside all those considerations ?—Yes, because there are no contracts now existing that were made 20 years ago. And therefore we need not be concerned about it.

6231. This is your argument ? And you would also brush aside its economic effect both on agriculture and on the industries of the country ?—I say they will be very good. By bringing the ratio to 1s. 6d. I say there might be some depression of profits, but there won't be depression of industry.

6232. Yes. So you don't attach great value to those factors. You think on the whole it will be for the good of the country ?—Yes.

6233. I will put you another question, a little bit imaginary. We will take 6 months to write out our report. Within the next 6 months if the ratio becomes 1s. 8d. I suppose you would be justified in taking that according to you as the basis of your calculation ?— Then I would again say, you should strike an average.

6234. Between 1s. 8d. and 1s. 6d. or 1s. 4d ?—Between 1s. 8d. and 1s. 6d.

6235. And you think that would be a sound financial polity ?—Well I don't know. You have to strike some sort of average. You can't do justice to each individual contract. For instance, if you take the example of the American War of Independence and the monetary fluctuations that took place then, all that the Americans could do was of course to do this kind of thing.—to strike an average and to dissolve all contracts on that basis. They could not do justice to each individual contract. It is impossible.

6236. *(Sir Henry Strakosch.)* Dr. Ambedkar, I want to refer back to some statements which you made in regard to the undesirability of introducing a gold exchange standard. At one period of your evidence you stated that the convertibility into exchange would not limit the issue of the currency and would therefore not produce stability of internal prices. That was one of the objections you raised and then at another point you said that the gold exchange standard is not a desirable standard because prices would be less stable under it than under a full-fledged gold standard ?—Yes.

6237. Now, you are a student of economic affairs and you have no doubt followed the proceedings of the Genoa Conference ?—Well, I did when I was in London. Recently of course I have not. But I know that the gold exchange standard was proposed.

6238. Well, you will remember that the Genoa Conference an International Conference adopted unanimously a proposal enjoining the countries to adopt the gold exchange standard with a view to stabilising the purchasing power of gold and that they recommended for that purpose the co-operation of central banks ?—I don't suppose they did it with a view to stabilising the purchasing power of gold ; they did it to stabilise their own currency.

6239. They stated definitely it was to stabilise the purchasing power of gold. Anyway, you can take it from me that it is so. Now, that is an international body and they have come to that conclusion and they apparently do not share your view that the gold exchange standard does not produce, as great a measure of stability internally as the gold standard ?—Oh no. My submission is that we are comparing the gold exchange standard to a purely inconvertible standard. The belligerent countries had during the war an absolutely inconvertible currency and certainly an inconvertible currency is much worse than an exchange standard because it has some convertibility. As I have stated myself in sub-paragraph (2) to paragraph 2. They were not comparing the gold standard to the gold exchange standard ; they were comparing the gold exchange standard with the paper currency they had.

6240. But I submit they did not compare at all. They made a recommendation ?—But in reference to the circumstances that existed then—I should limit it that way.

6241. Well, anyway, that is a fact. Now, quite apart from that, I am not quite sure what makes you think, apart from a change in the purchasing power of gold itself, why the gold exchange standard should not be as stable as the gold standard. I don't quite follow that, and, before you answer, I should like just to define what I understand by a gold exchange standard. A gold exchange standard is a standard where there is circulating within the country a currency which is not convertible internally, but which is freely convertible externally, and you could make that currency convertible into gold for export purchases. Now, taking that standard, I should be very glad if you would tell us why such a standard is less able to maintain stability than a gold standard ?—I follow your question, Sir. And my reply is this. Convertibility is a means of limiting the volume of currency to the needs of a country. A convertibility which is intended only for external purposes is not of sufficient efficacy to limit the volume of that currency. Consequently you cannot have stable internal prices to such a currency.

6242. Why do you say that it is less efficacious than convertibility for internal purposes ?—Because convertibility to be effective must be absolute.

6243. But it is absolute ?—It is not.

6244. But obviously it is. It is absolute. The difference is only that in the one case you convert into international money for international purposes, and in the other case you convert for either international money which is used internationally or international money which circulates within the country ?—No, no. The point is this. When your obligations to convertibility are imperfect as in the case of the exchange standard you are likely to issue more currency without fear.

6245. But you just said that the obligation to convert limits the issue in both cases ?—Yes, but converting depends upon the efficacy of the means of convertibility. If your convertibility is absolute, that is to say, if an issuer is bound to convert whenever he is presented with his currency, then that convertibility is absolute.

6246. But my proposition was that the gold exchange standard binds the issuing authority to convert the internal token currency into gold for external purposes ?—And not for all purposes.

6247. Now, I want to know why the obligation to convert the token currency for internal purposes should increase the stability of the purchasing power of that money ?—Because the principle is that any commodity, and currency included, maintains itself by the fact that it is limited in volume, in supply. That is the first elementary proposition of political economy ; that any commodity maintains itself by reason of the fact that the supply is limited. If the commodity supplied is not limited, it is bound to depreciate.

6248. Do you then contemplate that in your gold standard with gold currency, there should be nothing but gold coin circulating ?—No, I say that the rupee shall circulate.

6249. And no bank notes ?—Yes, there will be bank notes : why not ?

6250. Then, I don't see how you are limiting more effectively the internal issue in the one case than in the other ?—Because am saying that the mint shall be closed.

6251. What about the issue of bank notes?—They are covered. A covered note issued is not an addition to currency.

Supposing you deposit a certain amount of gold in the bank and you issue so much currency to cover it, that currency is not an addition to the currency.

6252. Oh, you want to have notes covered by 100 per cent, gold ?—Well, I don't say 100 per cent gold.

6253. Then how will you limit it ?—I mean convertibility is a method of limitation. I will have paper currency which is fully, absolutely convertible and not merely for the purposes of external trade. And I will have the rupee absolutely fixed in limit. So that it will maintain its value by reason of the fact that it is limited. The paper currency will maintain its value by reason of the fact that it is convertible.

6254. And how will you manage the seasonal requirements of currency ?—Well, I say you can expand the fiduciary portion of the currency so as to allow for currency being issued against paper during seasonal demand.

6255. Do you not put it here at the discretion and will of the issuer ?—Yes, but there is this convertibility which regulates the discretion. Convertibility is a means by which the will of the issuer is regulated. There will be no danger. Although I admit that even under the gold standard, the gold may absolutely pass out and the country may only be inundated with paper notes.

6256. Would you say that the obligation to convert into an international currency at two given gold points is sufficient to ensure the stability of money, because, if you over-issue internally, your money will depreciate in relation to gold ?—Yes, I admit it, but it will be long after. There will be a long interval before that thing may happen and in the case of some countries, it may not happen.

6257. How was the gold standard worked before the war in Europe and other countries ?—It worked on the basis of convertibility, not only convertibility for external purposes.

6258. But was that standard not in the main worked, by the central banks not converting into gold but holding foreign exchange, and only in the last resort was gold flowing from one centre to another ?—But their arrangements as to convertibility were perfect and absolute.

6259. You also know that a great many of the countries on the Continent of Europe who had perfectly stable currencies had practically no gold in circulation ?—Yes that was so.

6260. *(Chairman.)* We are much obliged to you Doctor, for your very full assistance to-day.

(The witness withdrew.)

4

THE PRESENT PROBLEM IN INDIAN CURRENCY-I*

2 Shillings *Versus* 1s. 4*d. Ratio*

The Great European War was the most abnormal event within living memory. During its disastrous course it touched nothing which it did not upset. But of all the things it touched none received a more violent shock than did the currency system that today one finds that the German mark, the Austrian crown, the Russian rouble, the French franc and the Italian lira, to mention only a few of the world's chief units of account, have lost their moorings and travelled far and wide from their original parity. Even the British pound succumbed and the rupee which was never in the thick of the war escaped the fasteners contrived by its guardian to keep it steady.

In the course of reconstruction which has followed the close of the War it is natural to find people desirous of a return to the prewar conditions of currency. In sympathy with this universal demand there has arisen to India a party with a definite programme in that behalf. In the opinion of this party Indian currency should be stabilized at the ratio of 1s. 4d. to the rupee which was the pre-war ratio of Indian currency. To this demand the Government of India seems to be opposed, not because that ratio is not good but because in its opinion it is not better. It wants or rather aims at having a 2 shilling ratio for the Indian currency. As every one is aware many Governments in Europe, apart from the wisdom of doing so, would indeed be thankful if they could only restore their currencies to their pre-war ratios—so far are they away from them.Indian currency on the other hand has already reached its pre-war ratio. In view of this the attitude of the Government of India in not being satisfied with a return to the pre-war conditions seems to be that of a naughty child always asking for more.

*The Servant of India — April 1, 1925

It is this controversy that I wish to make the subject matter of this paper. At the outset it is necessary to realise that this controversy involves two distinct questions : (i) Should we stabilize our exchange and (ii) What should be the ratio at which we should stabilise ? These two questions are distinct questions. But when one reads what the two parties have to say one sees that neither the Government nor its opponents have made it clear whether their aim is to alter the worth of our unit of account, i.e. to put a new value on it or to stabilise it at its existing value. I am afraid there can be very little advance in the direction of rehabilitation of our currency until these two questions are completely separated. For, not only is the aim of altering the worth of a currency distinct from that of stabilising true that those who want to alter the worth of the currency wish in the end to stabilise it when the worth desired is attained.

But so far as the transit period is concerned, to say that we are stabilising the currency when we are altering its worth is to create confusion. For, the latter involves a deliberate policy of changing the ratio ; while the former means a deliberate policy of keeping it steady.

Before I enter upon the discussion of these two-distinct questions it is, I think, necessary to make sure that we understand exactly how an exchange ratio is determined. For unless we grasp this, we can never intelligently follow the bearings and implications of the two questions that arise out of this controversy. To put it simply, an exchange ratio between two currencies or units of account means the value of one in terms of the other. Now, a unit of account is value in terms of another unit of account not for its own sake, unless it is wanted as a curio, but for what it will buy ; so that we can say, for the purpose of introducing the subject in a concrete form, that Englishmen will value Indian rupees in as much as and in so far as those rupees will buy Indian goods. On the other hand, Indians will value English pounds in as much as and in so far as those pounds will buy English goods. It, therefore, follows that if rupees in India rise in purchasing power or remain stationary or rise less rapidly while pounds in England fall in purchasing power (i.e. if the Indian price level falls relatively to the

English price level) fewer rupees would be worth as much as a pound. In other words when rupee prices in India will fall the exchange value of the rupee in terms of the pound will rise. Contrariwise if rupees in India fall in purchasing power while pounds in England rise in purchasing power or remain stationary or fall less rapidly (i.e. if the Indian price level rises relatively to the English price level) fewer pounds would be worth as much a rupee. In other words, when rupee prices in India will rise the exchange value of the rupee will fall. From this we can lay down as a general proposition that the exchange ratio of two units of account is on a par with the exchange ratio of their purchasing powers. This is in short the doctrine of Purchasing Power Parity as an explanation of a particular exchange ratio between two currencies or units of account. I insist upon a firm grasp of this doctrine because I find some of our leading lights seem to hold that a particular exchange ratio is the result of the balance of trade. This view is somewhat difficult to understand. For as a matter of fact, in international trade, wherein exports pay for imports, there is never such a thing left as an unpaid balance. It is true that a part of the trade dues are paid for by money; but there is no reason why the part liquidated by money should be spoken of as a balance. All that it means is that money enters into international trade just as other commodities do. There is nothing peculiar about money in that. Nor is there anything peculiar in the variation in the extent to which money enters into international transactions. The extent to which money enters into trading transactions of a country is governed by the same law of relative value as is the case with any other commodity. The commodity which is relatively the cheapest tends most to go out of the country. At one time it may be cutlery and at another it may be oranges and at a third time it may be money. If no one speaks, as one may very well do, of a balance of trade in terms of cutlery or oranges when after a stage of normal equilibrium more of them go out of the country than they did before, there is neither rhyme nor reason in speaking of a balance of trade in terms of money when after a stage of normal equilibrium more money goes out of the country than it did before. This usage is, however, pardonable as being a harmless survival of the mercantilist days.

But what is grossly absurd and foolish is the view that the exchange ratio of a unit of account is determined not by its purchasing power but by the balance of trade. This view is a pure inversion of cause and effect. It is true that a fall in the exchange value is accompanied by an adverse balance of trade and a rise in the exchange value by a favourable balance of trade. But an adverse balance of trade in the sense that commodity exports are falling off while commodity imports are rising evidently means that the particular country has become a market which is good to sell in but bad to buy from. Similarly, a favourable balance of trade in the sense that commodity exports are rising while commodity imports are falling off evidently means that the particular country has become a market which is good to buy from but bad to sell in. Now a market is good to sell in but bad to buy from (typified by the case of a fall in the exchange value accompanied by an adverse balance of trade) when the level or prices ruling in that market is higher than the level of prices ruling outside it. In the same way a market is good to buy from but bad to sell in (typified by the case of a rise in the exchange value accompanied by a favourable balance of trade) when the level of prices ruling in that market is lower than the level of prices ruling outside. This simply is another way of stating that lower prices means a high exchange value and a favourable balance of trade and that higher prices mean low exchange value and adverse balance of trade. The balance of trade is thus the result of the changes in the exchange value and not vice versa, and exchanges in the exchange value are the result of changes in the price level, i.e. changes in the purchasing power of units of account. This is the most fundamental fact and although some might resent the digression as feeding the baby I think it was necessary. For many people talk hopeless nonsense about stabilization of exchange and fixing the exchange at choice ratios as though it had nothing to do with the question of prices. On the other hand changes in exchange are ultimately changes in the price level and as much have profound bearing upon the economic welfare of the people. Remembering then that regulating exchange is the same thing as regulating the purchasing power of the currency, we may proceed to discuss the two questions that arise out of this controversy.

Firstly, should we stabilize the exchange value of our unit of account? As I have said above, foreign exchanges compare in value of the currency of one country with that of others. It follows that exchange values of two currencies are important only to merchants who do not buy and sell in the same country. Again, it is of no consequence to them what the exchange value is, i.e. whether the rupee is worth 1s. or 2s. provided the figure is always the same and is known in advance. It is only changes or fluctuations in the given exchange value that is of any moment to the merchant. What he wants is this invariability of exchange; to ensure this invariability is the problem of stabilization. Under the present circumstances can we guarantee this invariability of exchange ratio to our merchants? To answer this question we must recall the basic conception of the purchasing power parity as an explanation of the exchange ratio. From that doctrine it is clear that if you want to stabilize exchange you must control the purchasing powers of the two currencies concerned so that their movements will be alike in depth as well as in direction. To stabilize exchange we must have therefore some controlling instrument which would act as a common regulator bringing about proportionate changes in the two currencies in the same direction. Hitherto one such good instrument had been found and that was a common gold standard. That standard has now been destroyed all over the world except in the United States. Consequently an automatic stable exchange on the basis of a gold standard is impossible for the present, except with the United States.

Hitherto one such good instrument had been found and that was a common gold standard. That standard has now been destroyed all over the world except in the United States. Consequently an automatic stable exchange on the basis of a gold standard is impossible for the present, except with the United States. As regards countries which are on a paper basis, stabilisation of exchange can be secured only on two terms (i) Since we cannot control the currencies of other countries we must be prepared to manipulate our currency in sympathy with theirs and be ready to appreciate it when they depreciate theirs, (ii) Without manipulating the whole of our currency we should be prepared to sell and buy foreign exchange at a fixed ratio. Both these projects for securing invariability of exchange must, I think, be rejected as injurious as well as hazardous. There is no doubt that stabilisation will promote, as nothing else can, the revival of international credit and the movement of capital to where it is most required. One of the most vital parts of pre-war organisation would thereby be restored and an element of uncertainty would vanish. Markets given up as lost would be again nursed, which would give an impetus to trade and industry. But there is no doubt that the benefit to be derived will not be worth the cost involved. Our external transactions are infinitesimal as compared to our internal transactions. To dislocate our internal arrangements by constant changes in our price level to preserve external parity is too big a price for a gain which is after all paltry. For, our merchants must remember that though fixity is a great advantage, yet its absence is not an absolute bar to the carrying on of international trade. We have an instance of this in the history of our own currency. For two full decades between 1872-1892 there were the greatest oscillations in Indian currency. Then as now our merchants did clamour against the instability of exchange being an hindrance to trade. But our history shows that even under fluctuating exchange they did thrive and prosper and it may be hoped that their sons may instinctively know how to do the same. Should this fail to carry consolidation, one would recommend the movement of our price level even if it involved the management of our currency, had the Governments of the European countries not been in such an impecunious condition. As it is, by conseting to move our price level in sympathy with theirs we would be committing our welfare to the care of bankrupt governments and their desperate ministers. A currency which is managed on a basis approved by science would no doubt do the best. To be linked up with a currency which is managed solely to meet the exigencies of trade would be tolerable. But it would be an intolerable management of our currency to join hands with a partner who is living on his currency to keep himself going.

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THE PRESENT PROBLEM IN INDIAN CURRENCY*

2 Shillings *Versus* 1s. 4*d. Ratio*

So far for the first question. Now I turn to the another question arising out of this controversy, namely, at what rate should we stabilize our currency ? Interpreted in terms of purchasing power, the question reduces itself to this : Shall we bring about a fall in the existing price level, i.e. raise the purchasing power and thereby the exchange value of the rupee ? Now, changes in the value of money, if they affect all transactions and all classes equally, would be of no consequence and such questions as the above would not be worth any discussion. But as we all know, when the value of money changes it does not change in a uniform proportion for all purposes so as to affect a man's incomes and outgoings to the same extent. Consequently before we fix upon the direction in which to move our price level we must make sure whether the incidence on the welfare of the different classes of our society would be such as would be just and proper.

In the present organisation of society a triple classification into the Investing Class, the Business Class and the Earning Class corresponds to a real social cleavage and an actual divergence of interest. As it is, the business class is the centre of all economic activity; on the one hand it borrows money from the investing class and on the other it employs the earning class. There are money contracts, agreements to pay so much money. If after these money contracts have been entered into, the value of money changes one way or the other, it is obvious that the contracts will be falsified. If the value of money decreases, i.e. if prices rise then the investing and the earning classes are injured and the business class is benefited. The investing class and the earning class, it is true, do get from the business class the amount

* The Servant of India, April 16, 1925.

of money contracted for, But it will be seen that when owing to the rise of prices the business man is getting more money for his product than he would have got if the value of money had remained stable, he is not only paying to the other classes, the same amount of money but he also is payable them in money of smaller worth. In the same way if the value of money increases i.e. if prices fall then the business class is injured and the investing and the earning classes are benefited. As before the business man no doubt pays to the investing and earning classes the same amount of money contracted with them. But it will be seen that when owing to the fall of prices the businessman is getting less money for his product than he would have got if the value of money had remained stable, he is not only paying to the other two classes the same amount of money but he is also paying them in money of greater worth.

Clearly then if we move down towards 2s. ratio, i.e. bring about a fall in our prices we shall be favouring the investing and the earning classes of our society. On the other hand if we move up towards 1s. 4d. ratio we shall be favouring the business class of our society. To be just, an exhaustive estimate ought therefore to be made of the volume of outstanding money contracts entered into by the business class including the Governments with the investing and earning classes classified according to their age. It will then be found that the contracts outstanding at any given time include those made at any and every stage of preceding depreciations and appreciations for the last 100 years. To do justice to each and every one of them it would be necessary to fix upon different standards according to the value of money prevailing at the time when they were made. But it would be a physical impossibility to make separate standards, for separate contracts. If all contracts now existing had been entered into in 1914, then ideal justice would clearly require us to restore the pre-war par of currencies by such deflations as would reduce the general level of prices to exactly that of 1914. If, on the other hand, it was found that all contracts now existing happened to have been entered into in 1924, justice would require that we should retain the level of 1924. Undoubtedly the best we can do is to move between these two extremes. Now the two extremes of the exchange value of our rupee during the period are 1s. 3 $^7/_8$d. and 1s. 6d. This may be surprising to some. For it is well-known that at one time the rupee had gone to 3 shillings and our statute recognizes the rupee as equivalent to 2s. gold. But in my opinion we must disregard that together. It may at once be said that among the reports published by the various committees, that were appointed from time to time to investigate into Indian currency none was so stupid as the report of the Babington Smith Committee on whose recommendations the statute was framed. It was such an ignorant Committee that it could not understand the problem it was appointed to investigate and consequently it ended by making a mess of things. As is well-known the Committee reported that the value of the rupee should be raised to 2s. gold. That was tantamount to saying that the rupee had appreciated ; that in other words prices in India had fallen. How did the facts stand ? The following table conveniently sums up the whole story.

THE PRESENT PROBLEM IN INDIAN CURRENCY 679

Date		Price of Bar Gold in India (Bombay) per tola of 180 gr.	Price of silver in India (Bombay) per 100 tolas	Index number for prices in India 1913=100
	…	Rs. As.	Rs. As.	
1914	…	24—10	65—11	…
1915	…	24—14	61— 2	112
1916	…	27— 2	78—10	125
1917	…	27—11	94—10	142
1918 (July)	…	34— 0	117—2	178
“ (August)	…	30— 0	…	…
(September)	…	32— 4	…	…
1919 (March)	…	32— 3	113—0	200

From the table it is evident that, far from having appreciated, the rupee had tremendously depreciated. The price of silver had no doubt risen beyond conception and the Committee adopted without much ado the conclusion that the rupee had therefore risen in value. As a matter of fact this very circumstance was proof positive that the rupee had gone down in value : in terms of silver as well as in terms of commidities in general. If in 1920 more rupees were wanted to purchase the same amount of silver than in 1913 it meant that the rupee had fallen in value. The Committee blundered because it failed to separate the rupee as a currency and measure of value from the rupee as an ingot of silver. The 2s. gold exchange value of the rupee as a measure of value was never a fact and we are therefore perfectly justified in not taking that limit into account in the solution of our present problem. The only justification if it can be held to be a valid justification, that could be urged in favour of 2s. gold ratio consists in this. Some of those who ask for 1s. 4d. ratio do so because in their opinion it means a return to the pre-war conditions. Now if it is a return to the pre-war conditions that is desired then Government may well say that measured in terms of prices 1s. 4d. in 1924 is not the same thing as 1s. 4d. in 1914. Many people do not seem to realize this. But it is an incontrovertible fact. Both in 1924 as well as in 1914 exchange was 1 s. 4d. But the index number of sale prices in India was 176 in December 1924 while in July 1914 it was only 100. It therefore follows that if we want a return to the pre-war conditions then it will not do to have 1s. 4d. as the exchange value of the rupee. For a return to the pre-war conditions, meaning thereby pre-war price, we must reduce our existing prices by 76% i.e. raising the value of the rupee by 76%. This of course ultimately means a ratio of 2s. But it may well be asked why should we return to the pre-war conditions ? There is no necessity to do that. It must be remembered that old contracts are no longer in force. Most of them have been executed and whatever wrong was done to them in their execution cannot now be remedied. Besides, it must not be forgotten that though the monetary contracts outstanding at any given time are of various ages,—some are a day old, some a month old, some a few years old, some a decade old and some even a century old—yet most are of a very recent date. That being so, we must choose our starting point for a new standard from the level of current business and not from the levels operative before the war. To do otherwise simply because it would give us a low level of prices is to dislocate our trade and industry and thereby jeopardise our prosperity. To raise the value of our money by 76%

above its present value will mean to every merchant and every manufacturer not only that his product will fetch 76% less, but that he will have to give 76% more to the investing class from whom he borrowed and to the earning class whom he employed. The burden thus imposed upon the active and working elements of society would be intolerable. I must however guard against a possible misunderstanding. No one should imagine that because I am against lower prices I am for higher prices. All I insist upon is that we must not complain against high prices once that level is established. For things having adjusted themselves they are our normal level. A pre-war level would be abnormal and must therefore be rejected.

We must therefore choose between 1s. 3 $^{7}/_{8}$d. and 1s. 6d. As for choosing one or the other of the two we should be guided by what is fair and just. We want that enterprise be helped against accumulation and we probably wish that the rich should go richer. But I am sure none of us wants that the instinct of having, which is the foundation of capital, should be discounted or that poor should go poorer. But this would exactly be the result of a swing towards 1 s. 6d. On the other hand, though we want capital to grow and the poor to fare better yet none of us wants that industry be set at naught. And yet this would be the result of keeping to 1s. 6d.

I for myself would choose 1s. 6d. as the ratio at which we should stabilize if we can and for the following reasons. (I) It will conserve the position of the investing and the earning classes ; (2) It does not jeopardize our trade and prosperity by putting any extra burden upon the business class ; and (3) being the most recent in point of time, it is likely to give greater justice to the greatest number of monetary contracts most of which must be recent in time.

Fortunately for us we are not dependent upon other countries for the stabilisation of our price level, as we must necessarily be for the stabilization of our exchange. In exchange stabilization we could not even if we would. But in the stabilisation of our prices we could if we would. It would indeed be better if we can stabilize our prices as well as our exchange. But because .other countries cannot, stabilise their price levels there is no reason why we should not adopt measures that will give us stable prices at home which is really the most that is to be got out of a currency medium. In my opinion we should stabilize our prices forthwith by linking the rupee to gold at 1s. 6d. sterling. European countries will soon realize that it is insane to reach back to pre-war parities with gold and will learn that in matters of currency the real at any given time is the natural and normal. If they learn this earlier than we expect, we would find them stabilizing their currencies in terms of gold at the existing levels. In that case gold will again begin to function as an international standard of value and we shall have a stable exchange. But if before that we have stable prices in terms of gold it certainly cannot do us any harm.

During the course of this controversy there has arisen a new standpoint which would want us to do nothing in the matter of rehabilitation of our currency until we first took measures which should substitute the prevalent system of managed currency by a new system of automatic currency. I have great sympathy with this standpoint, not because I am sure that an automatic currency will always be more stable than a managed currency but because it reminds us that the question ' how can we most nearly maintain stability after we have attained it' is more worthy of our consideration than the question of attaining stability. But to suggest that we must do nothing to stabilize our price level till we have decided between a managed system and an automatic one, is to make hell of the earth because the angels do not consent to make a heaven of it. That was the reason why I thought it was a different matter altogether. Some comments on that might be useful at another time. But not now.

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REVIEW

CURRENCY AND EXCHANGES*

INDIAN CURRENCY AND EXCHANGE, By H. L CHABLANI, M.A. (Oxford University Press, Bombay) 1925. 8 y 2 x 5 y 2 pp. 184 Rs. 4-8-0

THIS brochure is a poor production. Within the small compass of 180 pages devoted by the author to a hurried treatment of a somewhat complicated subject, there is neither sufficiency of information nor sufficiency of illumination. Methodology is conspicuous by its absence. There are so many contradictions and compromises in his book that it is difficult to know what is the exact position of the author. In one place he says gold cannot be circulated in India because India is poor. In another place he says gold does not circulate in India because there are rupees. After devoting one whole chapter to the discussion of the quantity theory of money—in itself the simplest and the most obvious proposition in Political Economy—he says the rise of the Rupee after 1893 was not altogether due to the limitation of its issue ! Similar contradiction appears in his chapter on Foreign Exchanges. There he contrasts the two theories—namely, the Theory of Purchasing Power Parity and the theory of the Balance of Trade—and gives his judgment in favour of the former as being the true theory. Yet throughout the book he argues on the basis of the wrong theory, namely, the Balance of Trade. Again, in his opening chapter he says that there is nothing absurd in reverting back to the silver standard ! Management of currency is according to the findings of the author, one of the greatest defects in our currency. Yet he recommends a convertible Rupee as the remedy for this evil!

* The Servant of India; June 25, 1925

The compromises which the auhtor makes are witnessed by the fact that he agrees with almost every proposal made for the reconstruction of Indian Currency. He sees good in Dr. Fisher's plan, in reverting back to the silver standard, and also in an universalised Gold Exchange Standard. Nevertheless, the author has his own pet plan and that is to have a 'Convertible Rupee', convertible not in gold coins but in gold bullion only. The author does not disclose it, but it is the plan suggested by Ricardo in his "Proposals for an Economical and Secure Currency". Fortunately for England it was not adopted. The reasons were simple. To legislate that notes shall be converted into gold bars of certain weight meant that only those who had notes of the value of the gold bars, could convert. The rest could not. In other words, it was felt that such a system would considerably weaken the effect of convertibility and would thereby give an opening to inflation. The proposal was not therefore deemed to be secure enough. The point whether the proposal was economical was not debated upon at the time, and may here be conveniently dealt with ; since there are so many writers in India—and our author is one of them—who, in order to show themselves civilized, indulge in vituperations against what they call the barbarity of using gold as currency. All these civilized writers on currency spend their energy in demonstrating the self-evident proposition which no one disputes that to use paper as a medium of exchange is more economical than to use gold. But these same writers never care to prove that such a plan besides being economical will also be secure in the sense of ensuring stability of prices. A merely economical plan which does not guarantee security is of no use. The plan to be acceptable must be both economical and secure. It will do, if it is not economical; but it will certainly not do, if it is not secure. Now I submit that the proposition that to economize gold as a currency is to impair its utility as a standard of value is as self-evident as the proposition of the civilized writers that to use paper as a medium is more economical than to use gold. For what does this discarding of gold from currency use mean ? It simply means this; that by economising the use of gold you thereby increase its supply, and by increasing its supply you lower its value i.e. gold by reason of this economy in its use becomes a depreciating commodity and therefore unfit to that extent to function as a standard of value. It cannot be denied that issues of paper money, or any other substitute for that matter, affect the demand for metallic money. There are no doubt some who make the reservation that the demand for metallic money will or will not be affected by a paper issue according as the paper money is convertible or inconvertible. But this is an error. The test is whether the paper issues are covered or uncovered by a metallic reserve. If they are covered then they will not affect the demand for metallic money. But if they are uncovered, then they will affect the demand for metallic money whether they are convertible or inconvertible. The reason is : covered notes merely represent metallic money ; but uncovered notes add to the stock of value. Therefore you cannot both economize gold and also use it as a standard. If you want to economise gold, you must abandon gold as a standard of value. Besides, in the present day there is no necessity to economise gold, because there is all over the world such a great plethora of money that the less we economise gold the better. From this point of view the Gold Exchange Standard, once a boon, is now a curse. It served a very useful purpose for some time. From 1873 the production of gold had fallen off and the economy effected by the Gold Exchange Standard was indeed very welcome ; because it helped in a period of contraction to expand the money of the countries of the world and thereby maintain the stability of the international price system by preventing the rapid fall in prices, which would have been inevitable if all the countries which established the gold standard had also adopted gold as currency. But after 1910 conditions changed and the production of gold increased, with the result that the continuance of the Gold Exchange Standard thereafter not only did not help the countries to check the rise of prices but actually helped to raise them by causing as a result of the economy in its use a redundancy of the already over-produced gold. The author approvingly quotes Prof. Fisher and others who blame the Gold Standard for the rise of prices after 1911. But Prof. Fisher forgets to take note of the fact that gold became a bad standard of value because of continuance elsewhere of the Gold Exchange Standard. For if after 1911 the Gold Exchange Standard has been abandoned and countries had used gold instead of economising it, there would have been no redundancy of gold and the rise of prices consequent on it would have been arrested. The Gold Exchange Standard from this point of view has outlived its purpose and is now doing positive harm. In the light of these considerations it is not possible to have any sympathy with projects that economise the use of gold and yet maintain it as a standard of value.

These points must have entirely escaped the author when he conceived his project of a Rupee convertible into gold bullion. But convertibility into gold bars does not embody the whole plan of the author. Along with convertibility he says a limit must be placed on the issue of rupees and small notes, even when they are legally convertible into gold bullion. The currency in India should be allowed to expand annually by only a certain small percentage representing its normal rate of progress in business. Beyond that percentage Government should have no power to increase the currency...... In giving reasons for this fluctuating limit on the issue of rupees and small notes, the author says, "A 'convertible rupee' being small in its denomination, is not adequate safeguard against inflation ; for, as the older economists clearly showed, the de facto suspended convertibility of the small notes makes it practically inconvertible, and its over-issue, is just as likely as that of inconvertible paper." All this is fantastic if not strange. It is strange because the author in one place says "convertibility is the best safety-valve for redundancy of currency: it provides the easiest automatic danger signal to Government which is inflating the currency." Now, if this is so, why is a convertible Rupee not sufficient for the purpose the author has in view ? The author is quite wrong when he says that the older economists believed that convertibility of small notes was not a sufficient safeguard against over-issue. What the older economists feared was not that convertibility was not enough to maintain gold in circulation if the Banks were allowed to issue notes of small denomination—a view which is quite different from the one ascribed by the author to the older economists. Again to realize their aim the older economists did not urge, as our author represents them to have done, the placing of a limit on their issue. What they urged was a total prohibition of the notes of small denomination. That is why we find the Bank of England prevented by the Charter Act from issuing notes of lesser denomination than £ 5. To be consistent, the author should have recommended that the Government of India should not issue Rupees or silver notes of lesser denomination than Rs. 5. Instead of this he recommends a haphazard and an unworkable plan. Supposing it were possible to fix this percentage—the author has not told us how to do it—is the percentage to be maintained at all times ? Or will it be sufficient if it were found at the end of the financial year that the percentage has not been exceeded ? If the latter is all that the plan demands, then there may be . no limits to the increase and decrease in the volume of currency that may be issued in the course of the year, provided care is taken that at the end of the year the balance errs on the side of an increase equal to the given percentage over the normal. Again, is the normal to be a figure fixed for ever or is it to be revised ? If it is revisable then how is it to be revised and what authority is to revise that normal ? These are some of the questions that have to be answered before the plan can be accepted. But one wonders whether instead of indulging in such ingenuities it would not have been better if the author had played the common role and recommended either a convertible Rupee or an inconvertible Rupee with a fixed limit of issue.

The book consists of lectures delivered by the author in his capacity as a Professor to his students at the Elphinstone College, Bombay, and at the Central Hindu College, Benares, and is divided into two parts. Part I which is mostly informative, the author says, is " intended for candidates preparing for the pass degree in economics." Part II is mainly critical" and "is meant primarily for the candidates for the Hons. degree." As an examiner in Economics I always wondered why the answers of most of the pass students in Political Economy read like children's recitation of nursery tales and those of the Hons. like garbled versions of borrowed comments. It is now evident that this is due, as the author naively suggests, to the fact that the two sets of students are fed on two different kinds of fare—neither of which is supplied to them in plentitude or certitude.

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REVIEW

REPORT OF THE TAXATION ENQUIRY COMMITTEE, 1926*

Report of the Taxation Inquiry Committee 1926-1

COMMISSIONS to report and committees to enquire are a peculiar feature of the English system of government. It is a cardinal principle of English Parliamentary action that in the matter of social and economic legislation it never takes a leap in the dark. Committees and commissions are necessary preliminaries of an Act of Parliament. In this it follows the well known maxim that knowledge is power. One is happy to find that this principle of English Parliamentary action has been followed in India and our politicians, who so often oppose the appointment of Commissions and Committees, cannot be said to be acting in the best interests of the country.

In the case of the Taxation Enquiry Committee, however, it was the Government which was trying to shut it out and when it did institute an enquiry, it was not the one demanded by the Assembly. What the Assembly wanted was an Enquiry into the taxable capacity of the people and this the Government did not want to face for fear that such an enquiry might reveal that the burden of taxation upon the people was disproportionate to their taxable capacity. But when public opinion insisted upon the institution of such an enquiry, it, by a species of circumvention, split the enquiry into two parts : (1) The taxation Enquiry Committee and (2) The Economic Enquiry Committee, with the result that the utility of either committee's report has been considerably diminished.

The terms of reference to the Taxation Enquiry Committee directed it (1) to examine the manner in which the burden of taxation is distributed at present between the different classes of

* The Servant of India. Vol IX, No. 13, April 29, 1926 pp. 163-64.

the population; (2) to consider whether the whole scheme of taxation is equitable and in accordance with economic principles, and, if not, in what respects it is defective ; and (3) to report on the suitability of alternative sources of taxation. In making its Report, the Committee has not been very judicious in the allotment of space to the consideration of these three questions. The first was evidently the most important of the three heads comprized in the whole charge. Yet the space devoted to the consideration of it barely covers 13 pages in a volume of 447 pages. Besides the treatment of the subject is far from satisfactory. The Committee without giving any reason whatsoever divided the population of the country in 11 classes and has discussed the burden they bear in 10 pages and a half without at all touching upon the most important of all questions, viz., the incidence of the individual taxes imposed under the Indian fiscal system. Now one would have liked to know why did the Committee think that 11 was an exhaustive classification ? If it is just a question of may be, then why not 13 ? Again, how can the Committee at all say what is the burden that a merchant bears ? If they had examined the incidence of individual taxes, they would have perhaps found that he bore none ! Take again, another specific instance, that of the Cotton Excise Duty. The Committee has no difficulty in saying that its abolition will benefit the working classes. But is the Committee quite certain that it was shifted on to the consumer ? I do not at all wish to be unfair to the Committee. But I am bound to say that in this respect the Report of the Committee is a most disappointing document. The Committee has devoted a great deal of space to the detailed history of the various sources of taxation in India. So far so good. But it would have been far better if the Committee had devoted half of that space in discussing the incidence of each tax separately. But this the Committee has entirely omitted to do. If that was done, the Committee would have been in a better position to deal with the question of the distribution of the burden of taxation and of the elimination of the iniquitious taxes. That it has not been able to do as well as was to be expected from a Committee which has cost the country nearly Rs. $4^1/_2$ lacs exclusive of printing is due to the fact that it forgot to consider the question of incidence, which, after all, was the most important part of its enquiry.

This failure of the Committee to tackle the main problem is to be attributed primarily to the personnel of the Committee, which was largely of inexpert people, most of whom, if rumur be true, began to learn the A.B.C. of Punjab Finance after they found themselves nominated on the Committee. There is no wonder if the report emanating from such a body falls flat upon students of the subject. One thing, however, can be said in favour of the Report. It is a document full of common-sense, neatly arranged. If it can not satisfy the student, it will certainly serve as a base for his intellectual operations. Some of the proposals of the Committee I hope to examine in subsequent articles. For the present I propose to stop with this statement of my view on the Report in general.

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FOREWORD*

I am glad to respond to the request of Mr. SALVI to write a few words by way of introduction to his book on the Commodity Exchanges in India. It is obvious that his work if it is not a pioneering work is a more exhaustive piece of work than any that has so far appeared in the field. In nine chapters, he has examined the commodity exchanges in all their aspects and has thrown great light on an obscure subject. The subject of commodity exchanges is closely related to agriculture. India is an agricultural country and yet very little attention is paid to that subject. Those who are interested in the betterment of the agriculturists of India cannot but welcome the appearance of this comprehensive and instructive study.

Bombay, 29th December 1946

—B. R. AMBEDKAR

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* COMMODITY EXCHANGE
BY
P.G. SALVI, M.A.
THE CO-OPERATOR'S BOOK DEPOT, 9, BAKEHOUSE LAND, FORT, BOMBAY
1947

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FOREWORD*

Mr. M. R. IDGUNJI's book on Social Insurance and India is a well planned treatise.

It is divided into two parts. Part-I is general and deals with two main topics (I) the two principal branches of social insurance, viz., (i) Workmen's Compensation (ii) the different Financial aspects of Social insurance such as the Financial resources, the actuarial technique and financial administration. The discussion of the financial aspects of social insurance is aimed to explain the various problems connected with the financial resources required for the working of social insurance schemes, the various systems according to which the resources can be organised so as to have social insurance schemes working on sound lines and the problems of Administration connected with the financial side of social insurance.

Part-II deals with the problem of social insurance in relation to conditions prevalent in India. In this part the provision of the Indian Workmen's Compensation Act 1923, and of sickness Insurance are subjected to critical examination. In addition to this, there is a discussion of the Beveridge plan of Social Security and of the scheme of social security adopted in New Zealand. The discussion ends by an exploration of the possibilities for social security measures in India. The author holds the view that sound social insurance measures are not feasible in India unless certain fundamental difficulties are removed, and the country makes a substantial advance economically and is rid of the stark poverty that prevails in it today. The reasons in support of the stand he has taken are set out clearly and fearlessly. Realizing that India is predominantly an agriculture country and that the agriculture

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*SOCIAL INSURANCE AND INDIA

BY

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population sadly needs protection, the author has suggested a scheme of crop insurance based on the principles of social insurance. If indeed a scheme of crop insurance be evolved on the lines suggested by the author, it should go a long way in bettering the conditions of the rural masses in our country and lessening the terrors of famines.

Social insurance is a new thing in India. The Indian contribution to the literature on the subject is naturally meagre. In the circumstances, Mr. Idgunji's book is sure to be welcomed by all students of the subject both as an addition to the scanty literature thereon and also as a critical examination of the problems arising out of it. His style is lucid and his exposition is very clear.

—B. R. AMBEDKAR

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