Babasaheb Dr. B.R. Ambedkar
(14th April 1891 - 6th December 1956)

Grammar of Anarchy

We must hold fast to constitutional methods of achieving our social and economic objectives. It means that we must abandon the method of civil disobedience, non-co-operation and satyagraha. When there was no way left for constitutional methods for achieving economic and social objectives, there was some justification for unconstitutional methods for achieving economic and social objectives. But where constitutional methods are open there can be no justification for these unconstitutional methods. These methods are nothing but the Grammar of Anarchy and the sooner they are abandoned the better for us.

—Dr. B. R. Ambedkar
in the Constituent Assembly
on 25th November 1949

DR. BABASAHEB AMBEDKAR
WRITINGS AND SPEECHES
Vol. 6

Compiled
by
Vasant Moon

Dr. Babasaheb Ambedkar : Writings and Speeches

Vol. 6

First Edition by Education Department, Govt. of Maharashtra : 10 October, 1989
Re-printed by Dr. Ambedkar Foundation : January, 2014

ISBN (Set) : 978-93-5109-064-9

Courtesy : Monogram used on the Cover page is taken from
Babasaheb Dr. Ambedkar's Letterhead.

Price : One Set of 1 to 17 Volumes (20 Books) : Rs. 3000/-

Publisher:

Dr. Ambedkar Foundation
Ministry of Social Justice & Empowerment, Govt. of India
15, Janpath, New Delhi - 110 001
Phone : 011-23357625, 23320571, 23320589
Fax : 011-23320582
Website : www.ambedkarfoundation.nic.in

The Education Department Government of Maharashtra, Bombay-400032
for Dr. Babasaheb Ambedkar Source Material Publication Committee

Printer

M/s. Tan Prints India Pvt. Ltd., N. H. 10, Village-Rohad, Distt. Jhajjar, Haryana

Kumari Selja

Minister for Social Justice and Empowerment
& Chairperson, Dr. Ambedkar Foundation

MESSAGE

Babasaheb Dr. B.R. Ambedkar, the Chief Architect of Indian Constitution was a scholar par excellence, a philosopher, a visionary, an emancipator and a true nationalist. He led a number of social movements to secure human rights to the oppressed and depressed sections of the society. He stands as a symbol of struggle for social justice.

The Government of Maharashtra has done a highly commendable work of publication of volumes of unpublished works of Dr. Ambedkar, which have brought out his ideology and philosophy before the Nation and the world.

In pursuance of the recommendations of the Centenary Celebrations Committee of Dr. Ambedkar, constituted under the chairmanship of the then Prime Minister of India, the Dr. Ambedkar Foundation (DAF) was set up for implementation of different schemes, projects and activities for furthering the ideology and message of Dr. Ambedkar among the masses in India as well as abroad.

The DAF took up the work of translation and publication of the Collected Works of Babasaheb Dr. B.R. Ambedkar published by the Government of Maharashtra in English and Marathi into Hindi and other regional languages. I am extremely thankful to the Government of Maharashtra's consent for bringing out the works of Dr. Ambedkar in English also by the Dr. Ambedkar Foundation.

Dr. Ambedkar's writings are as relevant today as were at the time when these were penned. He firmly believed that our political democracy must stand on the base of social democracy which means a way of life which recognizes liberty, equality and fraternity as the principles of life. He emphasized on measuring the progress of a community by the degree of progress which women have achieved. According to him if we want to maintain democracy not merely in form, but also in fact, we must hold fast to constitutional methods of achieving our social and economic objectives. He advocated that in our political, social and economic life, we must have the principle of one man, one vote, one value.

There is a great deal that we can learn from Dr. Ambedkar's ideology and philosophy which would be beneficial to our Nation building endeavor. I am glad that the DAF is taking steps to spread Dr. Ambedkar's ideology and philosophy to an even wider readership.

I would be grateful for any suggestions on publication of works of Babasaheb Dr. Ambedkar.

(Kumari Selja)

ACKNOWLEDGEMENTS

Her Majesty's Government, U.K.; Columbia University, New York, U.S.A.; London School of Economics and political Science U.K.; Reserve Bank of India Library, Bombay ; Legislative Council Library, Bombay; Bombay University Library ; Dr. Ambedkar Research Institute, Nagpur; Gokhale Institute of Politics and Economics, Pune ; Siddharth College Library, Bombay.

PREFATORY

In presenting the 6th volume of the writings and speeches of late Dr. B. R. alias Babasaheb Ambedkar, the State Government has the satisfaction of fulfilling its promise and commitment though not in a full measure but substantially. The volume contains reprints of (1) Problem of the Rupee, (2) Evolution of Provincial Finance in British India and it also contains a unique document which is almost a graphic socio-economic balance-sheet of the British rule in India viz. his dissertation on the administration and finance of the East India Company. It is, as readers will judge for themselves, an outstanding achievement for a young man of 24 years that was Dr. Ambedkar in 1915

Apart from these writings, the volume also contains occasional essays, reviews and other miscellaneous reflections on socio-economic topics of the day. In all these writings, Dr. Ambedkar emerges as a profound thinker with strong awareness of his immediate environment. He could see the Indian society of his time in contact with the liberal influences of Western education and like other eminent Indians of the day, he recognised the need for synthesis and assimilation of Western critical outlook with the emerging social ethos of democracy and the welfare state.

The objectivity and criticality of outlook of Dr. Ambedkar may be summed up in the words of Edwin R. A. Seligman of Columbia University, New York. Writes Seligman : "The value of Mr. Ambedkar's contribution to this discussion lies in the objective recitation of the facts and the impartial analysis of the interesting development that has taken place in his native country."

Dr. Ambedkar's exposition of the Problem of the Rupee evoked appreciation of Edwin Cannan, the eminent economist, who frankly acknowledges the gifts of objectivity which Dr. Ambedkar displayed. He writes, "I do not share Mr. Ambedkar's hostility to the system nor accept most of his arguments against it and its advocates. But he hits some nails very squarely on the head." Indeed, it is needless to quote words of appreciation of Englishmen who were impressed by the critical faculties of analysis of Dr. Ambedkar.

The life of Dr. Ambedkar was spent in the service of the Indian society to the restructuring of which he gave unremittingly all his intellectual and moral gifts which Providence granted him in a generous measure.

He dreamt of India in which every citizen would be Indian first and Indian last. While expressing himself on the Constitution of the Government of Bombay Presidency before the Indian Statutory Commission, he said, "For, I am of opinion that the most vital need of the day is to create amongst the mass of the people the sense of a common nationality, the feeling not that they are Indians first and Hindus, Mohamedans or Sindhis and Canarese afterwards but they are Indians first and Indians last. If that be the ideal, then it follows that nothing should be done which will harden local patriotism and group consciousness."

Progress of mankind is the progress of ideas and march of ideals. Law itself embodies ideal. For Dr. Ambedkar, the ideal was equality, liberty and fraternity. The present generation has much to be indebted to this great son of India.

(Sharad Pawar)
Chief Minister of Maharashtra

INTRODUCTION

This is the 6th volume of the writings and speeches of Dr. Babasaheb Ambedkar consisting of the reprints of his works viz.

(1) The Evolution of Provincial Finance in British India ;

(2) The Problem of the Rupee

and his unpublished dissertation on ' Administration and Finance of the East India Company' submitted to the Columbia University, U.S.A. for his M.A. degree. It also contains his evidence before the Royal Commission on Indian Currency and Finance. His contributions, reviews and prefaces on matters, economic and financial, are also included so as to bring together in the sequence of a single volume his writings on the subject.

His published works (1) Evolution of Provincial Finance in British India and (2) Problem of the Rupee have been out of print for quite some time and the present generation has little or no knowledge of his contributions to the subject of public finance or economics and these will be found useful and instructive as introduction to the evolution of the present federal structure of the Indian polity.

Dr. Ambedkar had the unique distinction of being closely associated with the events and policies that eventually climaxed into the political federation with strong Centre and autonomous states after the inauguration of the Constitutional Government in India in 1950.

His evidence before the Royal Commission on Indian Currency shows a new facet of his multi-dimensional personality as an expert in public finance whose words evoked appreciation and attention of English scholars of his time. His dissertation on the finances of the East India Company is a memorable document that finds place in the present volume for which thanks are due to the University of Columbia. Dr. Ambedkar was then 24 years of age. It may perhaps interest the readers to know his reactions to the finance of the East India Company. There are flashes of his genius and his acute mind could consider pros and cons in a balance. It is difficult to resist the temptation to quote his words from the said dis-sertation of 1915, which constitute the balance-sheet of the British Empire. Writes Dr. Ambedkar:

> "It remains, however, to estimate the contribution of England to India. Apparently the immenseness of India's contribution to England is as much astounding as the nothingness of England's contribution to India. Both are, however, true statements if looked at from economic points of

view. But from another point of view, if India's tribute cannot be weighed in the scales of justice and humanity then England's contribution cannot be weighed in the scales of gold and silver. The last statement is both literally as well as figuratively true. England has added nothing to the stock of gold and silver in India ; on the contrary, she has depleted India— 'the sink of the world.'

"Her contribution lies in an uneconomic realm: but just the same, it is too great to be measured in terms of coin.

"Englishmen can look back on their work in India, if not with unalloyed satisfaction, at least with some legitimate pride. They have conferred on the people of India what is the greatest human blessing—Peace. They have introduced Western education, bringing an ancient civilized nation in touch with modern institutions and life. They have built up an administration which, though it requires reform with the progress of the times, is yet, strong and efficacious. They have framed wise laws, and have established Courts of Justice, the purity of which is as absolute as in any country on the face of the earth. These are results which no honest critic of British work in India regards without high admiration.

> " **But whether mere animal peace is to be preferred to economic destitution, let every one decide for himself."** (emphasis supplied)

In the present volume as in the previous ones, there are several passages that show the varied aspects of the charismatic personality of Dr. Ambedkar. He was a pragmatist par excellence, a stylist of high order, and a profound social philosopher who never allowed himself to be swayed by abstract ideas and dogmas. He was a patriot and nationalist whose commitment to the welfare of the Indian society divided by castes and creeds, is transparent in all his writings and speeches which, as in the above passage brings out antinomies of life in all their varieties and complexities.

The present volume thus fulfils a long-felt need to have in compact form thoughts and views of Dr. Ambedkar on matters, economic and financial. It will also serve as a source of material of contemporary historical relevance. We hope that the layman as well as the research worker will both benefit by the present publication.

(Kamalkishor Kadam)
Education Minister

CONTENTS

Book 1

Blank

ADMINISTRATION AND FINANCE OF THE EAST INDIA COMPANY

By
Bhimrao R. Ambedkar

Submitted in partial fulfilment of the requirements of the degree of Master of Arts

May 15,1915

Blank

Administration and Finance of the East India Company

The copy of this dissertation was secured from the Columbia University by Dr. Frank F. Conlon of the Department of History, University of Washington, U.S.A. and was presented to Mr. Vasant Moon of Dr. Ambedkar Research Institute, Nagpur, in 1979.

The editors are grateful to the University of Columbia, U.S.A. for their kind permission to publish this unpublished dissertation which is in their ownership and possession. They also appreciate Dr. Conlon's gesture of generosity and the assistance of Dr. Ambedkar Research Institute, Nagpur, for making this paper available for printing to the Government of Maharashtra.

Blank

I

WITHOUT going into the historical development of it, the administration of the East India Company may be conveniently described as follows :

I. The Court of Proprietors

It was "composed of the shareholders of the East India stock to a certain amount, who elect from their own body by ballot a certain number of representatives (twenty-four) to whom the proprietory confide the planning and carrying into effect whatever measures may be deemed most conducive to the interests of India and England, reserving to themselves a surveillance and limited control over the proceedings of the delegated authority."

The requirements of a seat and a vote in this Court were as follows :

A proprietor of	£ 500 stock was entitled to a seat in this Court.
A proprietor of	£ 1,000 stock was entitled to one vote.
A proprietor of	£ 3,000 stock was entitled to two votes.
A proprietor of	£ 6,000 stock was entitled to three votes.
A proprietor from	£ 10,000 to £ 1,00,000 and upward stock was entitled to four votes.

Besides this, the stock must have been held for at least one year before voting. There was no voting by proxy and minors were ruled as incapable of voting.

The voters counted Lords, Commoners, women, clergy, and officers civil and military, both of the king and the company.

The sessions of the Court were quarterly—March, June, September, December. Nine qualified proprietors were quite sufficient to ask for a special session of the Court. The speaker was ex-officio the chairman who presided at the session, brought forward all motions requiring the sanction of the Court, and laid before the members the accounts of the Company's transactions.

The Court was authorized—

(1) To elect qualified persons to constitute what is known as the Court of Directors.

(2) To declare the dividends on the capital stock of the company within certain parliamentary restrictions.

(3) To frame, alter, or repeal such of the by-laws as hinder the good government of the East India Company, provided they do not conflict with the Acts of Parliament.

(4) To control in general any increase in a salary or pension above £ 200 a year, or over any gratuity beyond £600.

(5) To confer pecuniary reward for good service.

II. The Court of Directors

It consisted of twenty-four members. The Directors were elected by such of the Proprietors as were qualified for a vote. The qualification of a candidate for the Court of Directors were :

(1) He must be a natural, or naturalized subject of Great Britain.

(2) He must possess £ 2,000 stock (no matter for what previous period).

(3) He must not be a director of the Bank of England or the South Sea Company.

(4) He must be a resident of England for two years after holding office in the Court.

(5) He must not have held any maritime office in the Service of the Company for two years previous to his proposed election.

(6) He must not have under any plea or pretence whatsoever, endeavored to obtain, directly or indirectly, a vote for the election of himself or any other person to be a Director.

(7) He must take an oath

(a) not to carry on any private trade.

(b) not to have any dealing with the company except as a private individual.

(c) not to hold any place or office of emolument under the Crown.

In order to fulfill the various duties, the work was assigned to several Committees into which the Court was sub-divided. They were:

1. Secret Committee
2. Correspondence Committee
3. Treasury Committee
4. Govt. Troops and Stores Committee
5. Legal Proceedings Committee
6. Military Proceedings Committee
7. Accounts Committee
8. buying committee
9. Warehouses Committee
10. India House Committee
11. Shipping Committee
12. Private Trade Committee
13. Civil College
14. Military College

All appointments such as writers, cadets, and assistant surgeons etc. were made by the Directors. The Civil and Military Services were recruited from the graduates of the two colleges which were merely a burden on the revenues of the Company.

III. The Board of Commissioners for the Affairs of India (The Board of Control).

The powers of the Board are :

(1) "The superintendence and control over all the British territorial possessions in the East Indies, and over the affairs of the United Company of merchants trading thereto."

(2) "To superintend, direct and control all acts, operations, and concerns, which in any wise relate to the civil or military government or revenues of the British territorial possessions in the East Indies, in the manner hereinafter directed."

"All the members of the said Board, at all convenient times, have access to all palers and muniments of the said United Company, and are furnished with such extracts, or copies thereof, as they require. The Court of Directors are directed to deliver to the Board copies of all minutes, orders, resolutions, and other proceedings of all General or Special Courts of Proprietors of the Company, and of the Court of Directors, so far as relate to the civil or military government or revenues of the British territorial possessions in the East Indies, within eight days after the holding of such respective Courts; and also copies of ail despatches which the Directors receive from any of their servants in the East Indies, immediately after the arrival thereof; also copies of all letters, orders and instructions whatsoever, relating to the civil and military government or revenues of the British territorial possessions in the East Indies, proposed to be sent or despatched by the Court of Directors to any of the servants of the Company in the East Indies; the Court of Directors are required to pay due obedience to, and to be governed and bound by

> such orders and directions as they shall, from time to time, receive from the Board, touching the civil or military government and revenues of the British territorial possessions in the East Indies."
>
> "Whenever the Court of Directors neglect to transmit to the Board their intended despatches on any subject, within fourteen days after requisition is made, it is lawful for the Board to prepare and send to the Directors (without waiting for the receipt of the copies of despatches intended to be sent by the said Court of Directors, as aforesaid), any orders or instructions to any of the governments or presidencies aforesaid, concerning the civil or military government of the British territories and possessions in the East Indies : and the Directors are required to transmit despatches, in the usual form (pursuant to the tenor of the said orders and instructions to be transmitted to them), to the respective governments and presidencies in India, unless on any representation made by the Directors to the Board, touching such orders or instructions, the Board shall direct any alteration to be made in the same, which directions the Court of Directors are bound to conform to."

The Board of Control was sub-divided into six departments to answer its functions : (1) Accounts, (2) Revenue, (3) Judicial, (4) Military, (5) Secret and Political, (6) Foreign and Public.

The mode of local administration in India was as follows :—

The country was divided into three presidencies namely, Bengal, Madras and Bombay, the seat of government being respectively at Fort William, Fort St. George, and Bombay itself.

In the beginning the Supreme Local Administration of India was distributed among these three governments, each one enjoying coordinate status. With a view to centralization, the Supreme Local Administration of India was vested in the Governor of Fort William in Bengal, making the other two Governors subordinate to that of Bengal who was made the Governor-General of India.

The appointment of the Governor-General was made by the Court of Directors subject to the approval of the Crown. The Governor-General was aided by a Council known as the Supreme Council, originally composed of four members, three of whom necessarily had to be the servants of the Company in India of at least ten years' standing. The fourth one must not have belonged to the Company's Service. The Commander-in-Chief of forces in India was an ex-officio member of the Governor-General's office. This Supreme Council of five members was expanded by adding to it in 1853, six Legislative members who were authorized only to sit and vote on the framing of Laws and Regulations. Four of these six Legislative members were required to be the Civil Servants of the Company of ten years' standing in Bombay, Madras, Bengal and the North-Western Provinces. The two remaining places were filled up by the Chief Justice and one other Judge of the Supreme Court of Calcutta. The Governor-General was authorized to add two more members to this Council of eleven, under Section 22 of Statute 16 and 17 Victoria Chapter 95, but the power was not exercised at best up to the time of the mutiny.

This Supreme Council of India, therefore, was composed of six members including the Governor-General and the Commander-in-Chief for the purposes of Executive Government and twelve members for the purposes of the Legislatures : seven members were deemed sufficient to form a quorum.

The power of the Governor-General was so great that he was nearly an autocrat. He could not only veto all legislation in the Council but could initiate and carry out measures independently of the Council. All "political" appointments including those of the Residents to the native States and the Commissioners to the non-regulated provinces were made by him. He could appoint the Lieutenant-Governor of Bengal and of the North-West Provinces and the judges of the lower courts and controlled military patronage in Bengal and the North-West provinces.

All districts not included within the limits of any of the four Subordinate Governments were under the direct jurisdiction of the Governor-General in Council who also exercised such power over the native states as accrued to him through treaty obligation. The official staff of the Governor-General was divided into four departments, each one represented by a Secretary. These were :

(1) The Foreign Department (foreign in relation to the native states).

(2) The Home Department, handling the judicial and revenue correspondence.

(3) The Financial Department.

(4) The Military Department.

Besides these the Political and Finance Secretaries had their respective Secret Departments which were entrusted with secret despatches.

The Subordinate Governments of Madras and Bombay were administered thus : Each had its respective Governors and Councils consisting of three members (including the Commander-in Chief). Both the Governors and the Councillors were appointed by the Court of directors. Bengal and the North-west Provinces were each governed by the Lieutenant-Governors who were appointed by the Governor-General. The Subordinate Governments were denied the power of legislation or creating any new office, nor could they "grant any salary, gratuity, or allowance without the previous sanction of the Governor-General of India in Council." This extreme strictness though required by law was not required by custom : in order not to overburden the Governor-General, minor matters were executed by the Governor who submitted a quarterly report of the same to the higher authorities who reviewed it and as a matter of fact sanctioned it. The Bombay and Madras Governments were privileged to hold direct correspondence with the Court of Directors and did send the abstracts of their proceedings to the Court and to the Government of India. The instruments of Indian Government were furnished by what was and is known as the Civil (covenanted and uncovenanted), the Military, the Naval and the Ecclesiastical Service. The collection of revenue and administration of justice were relegated to the Civil Service.

For Civil and Military recruitment, the East India Company had maintained two colleges in England (1) the Haileburg College and (2) the Adiscombe Academy : Each student cost the Company about £ 96 a year during his period of training.

All revenue was collected in the name of the Supreme Government of India and was transferred to and controlled by the Supreme Treasury. There was absolutely no local fiscal autonomy : the deficit in one province was made up by the surplus in another and the entire India revenue was held responsible for the debts borrowed for wars in one particular province : in short, both Finance and Administration were absolutely centralized as in France under the ancienne regime.

So much for the pure system of Administration. The criticism of it we will postpone till we come to the next chapter.

The last chapter must have made it clear how and why Western Europe was at a death grapple for the control of India. We followed the armies of the different leaders of different nations— fighting for a country the people of which had very little to choose in the final destiny—the Cama, the Albuquerques, the Busseys, the Lallys, the Clives, the Malcolms, the lakes and the shores as though enacting the train of ghosts of Banquo's line all that terrified Shakespeare's Macbeth out of his senses.

II

In this chapter we have more particularly to deal with the East India Company as a Political Sovereign and the Finances without dilating upon its development from a Commercial Concern into a Political Sovereign.

There is nothing strange in the fact that the East India Company succeeded in establishing its suzerainty over India as might have been seen from our past discussion. Having gotten a foothold in the various provinces it extended its rule over the entire peninsula and established by law what is known as the British Government in India : in other words, it established the State and carried on the political and commercial functions jointly. As a result of this combined activity the fiscal administration of the Company in India was an entangled phenomenon. The commercial and revenue returns were merged together without any attempt at distinction. Any student of finance, therefore, has to pass over the entire period ending in 1814 when by an Act of Parliament the Company was compelled to keep separate accounts of Finance and Commerce.

With this caution we will now turn to the heads of Revenue.

(1) The Land Revenue

In spite of the early industrialization in parts of India, the country as a whole maybe classed as an agricultural country and land, today as in former times, furnished the state with a major part of its revenue.

The British Government rightly or wrongly established the principle of state landlordship versus the principle of private property and regulated its land revenue system in keeping with that policy.

There are different systems of land revenue in India : It may be well to describe them in the words of Parliamentary Blue-Books.

(I) The Zemindary Settlement of Cornwallis

The most obvious feature of advantage in this system is the facility of collection, as it is a much more simple thing to obtain the revenue of a large district from a certain moderate number of Zemindars or contributors, than it is to perform the collection in details by the officers of the government themselves, and another advantage undoubtedly is the greater degree of certainty in the result of 1831 C. 3339.

This system of land tenure arose thus : When the East India Company came into possession of the revenues of the Dewanee of Bengal, Behar and Orissa, they found the land revenue collected through the mediation of officers (subhedars) under the Mohamedan government, who had charge of districts sometimes of more, sometimes of less extent, with various titles, such as Zemindars and Talookdars, and who paid the revenue into the treasury in one sum, for which they were found managing considerable districts whose obligations consisted in paying a certain annual amount to the Government. Many of them held their districts or estates under this condition hereditarily. [2. cf.

1831 C. 3114, 3115, 3215.] On the East India Company becoming possessed of the Bengal territory, great abuses were found to prevail, and to be practised by the different sorts of people employed in the collection of the revenue. The detail of the business was so great, that it frightened Lord Cornwallis and the Government of the day, and they conceived that no better method for the protection of the Ryots or small cultivators, could be invented, than to create a species of landlords, from whom they expected much benefit to arise : the ground upon which they principally went was this, that those zemindars, having a permanent interest in the land assigned to them, would have an interest in the prosperity of the Ryots, in the same manner as a landlord in England feels an interest in the prosperity of his tenants. This was expected to produce two good effects, to create a landed aristocracy in the country, and above all to afford protection to the Ryots or small cultivators, from the kind of paternal feeling that was expected to pervade the zemindars. [1. cf. 1831 C. 3136.] With a view to the protection of the whole mass of agricultural population, and with the best motives, the zemindars in 1793, whether cultivators or officers in actual charge of districts, hereditary or by special appointment, were created landholders of the country by which a property in the soil was vested in them, in nearly as full a sense as it is to the holder of a fee-simple in England. The sum which a zemindar had been in the habit of paying was ascertained by the observation of a few prior years, the assessment or tax was *fixed forever,* and an engagement was made that this amount of land revenue should never be raised on him. Such is the nature of the settlement known by the name of "the Zemindary or Permanent Settlement". [2. cf. 1831. C. 3115, 3116, 3136, 3215; 1832. R.C. p. 21.]

II. Village Land Revenue System

The institution of village community was and is mainly to be found in northern India. The proprietary right of land is vested in the entire community residing in the village. The administration of the village is handed over to a headman elected by the villagers and is subject to their removal. Under this system the lands are let out to men sometimes in the same village, sometimes in the neighbouring village, while certain portions and certain rights are possessed by the different craftsmen or artisans of the village, such as the schoolmaster, the washerman, the barber, the carpenter, the blacksmith, the watchman, the village accountant, etc. who have each a right to a certain portion set aside for certain recognized expenses of the village, and for defraying its hospitality towards strangers [1. cf. 1830, L. 398, 399, 405, 406, 529.] These village communities are little republics, having nearly everything that they want within themselves, and almost independent of any foreign relations. Dynasty after dynasty tumbles down : revolution succeads revolution. Hindoo, Pathan, Mogul, Maratha, Sikh, English, are all masters in turn, but the village communities remain the same. In times of trouble they arm and fortify themselves; [2. cf. 1832 Commons' Rev. Committee, p. 29.] It is difficult to state the proportion of the produce of the village paid to the Government: the authorities know little of the precise property of any of the proprietors; it is not the interest or the wish of the village that the Government should scrutinize and know their possessions, therefore if any one of the brotherhood fails to pay his proportion, that is a matter for the villagers at large to settle, and they will often come forward to pay it for him, but these are all private arrangements kept to themselves : and the Moceadim has no power from the Government to enforce this assessment, what each man in the village has to pay is an internal arrangement, which it is desirable for the Government not to interfere in, the villagers settling among themselves what each has to pay, the total assessment being calculated after enquiry into the state of prosperity in the village : what it has hitherto paid : what it is capable of paying : the state of the village lands, and what assessment they ought to bear with reference to the produce. [3. cf. 1830 L. 401, 402, 404, 528, 583, 584.]

Surveys of considerable expense have been made by the Government : a minute account taken of the state of the land in each village, the fields examined in the presence of surveying officers with all the assistance they can procure, not only from their own servants, but from the village communities, the people themselves interested, and also the ryots and people of the neighbouring villages who are invited to attend. The exact limits of the village are put down, and even the details of land within the village, the productions, the houses, fruit-bearing trees, and son on : the assessment is grounded upon these particulars [1. cf. 1831 C. 3492.]

III. The Ryotwar System

The peculiar principle of the third sort of assessment termed Ryotwar is to fix a maximum of assessment upon all the lands of the country [2. cf. 1831 C. 45, 65.] The money rent of each individual oultivator for the fields in his occupation is defined with as much permanency as possible, the aggregate of such rents making the total assessment, which varies each year with the increase or decrease of cultivation. Another main principle of the Ryotwar system is to protect the rights of all ryots or cultivators, as they now exist in every village, from infringement: and to prevent all encroachment upon those rights [3 cf. 1831. C. 5156 :] Thus, in the Ryotwar system, the details of the interest of the respective Ryots are known completely, and not at all in the zemindary system; and the former effectually does what the latter proposes to do, but never has done, and never can do, that is, fix an assessment upon all lands in the country. Under the Ryotwar system, the assessment goes from land to the aggregate : it respects property of every class, that of the largest landholder, and that of the smallest: it measures and assess every portion of an estate, and thus facilitates the transfer of landed property, as the first question when taken into market is—What is the amount of public demand upon the land ? [4 cf. 1831 C. 4565, 4567, 4568.] The Ryotwar Settlement is applicable in every state of things : where there are proprietors it may be concluded with farmers or cultivators : it may be equally made for the largest or for the smallest quantity of land, for millions of acres or for only a few. The owner of a single field may make his terms directly with the Government, and turn to his cultivation, knowing that he cannot be called on to pay more than a certain sum : for although the assessment under this system varies according to the value of the land, difference of soil, population, situation, and other localities : and although inferior land, paying a lower assessment, becomes liable when sufficiently improved to pay the higher assessment, there is nevertheless, a maximum for the best land beyond which all produce is for the benefit of the landholder, and there are remissions in cases of urgent distress. [1. cf. 1832 C.R. P. No. 20.] Another advantage which the Ryotwar system possesses over the Zemindary is in the creation of a great body of independent proprietors, instead of a few who are proprietors only in name : and there is an advantage for the great mass of the people, but in the case of the Zamindary they accumulate for the benefit of the few, while in the Ryotwar system there is also tendency in a considerable degree to the accumulation of capital. [2. cf. 1831 C. 4577, 4578, 4579.]

Such was and is the system of land revenue in India under the regime of the East India Company. A critical estimation of the system we will reserve for the future.

The next important head of revenue is the *Opium revenue.* The opium revenue yielded next in amount to the land revenue and was levied in two different ways :

(1) "By an exclusive system of cultivation and sale carried on by the Government in Bengal."

(2) "By a high export duty levied in Bombay on opium grown in the native states of Malwa and shipped from Bombay."

By Regulation VI of 1799 section 3, poppy cultivation was prohibited in Bengal, and in the North-West Provinces by Regulation XLI of 1803 Section 2.

> "Annual engagements are entered into by the Government with the Ryots in certain selected districts, to sow a certain quantity of land with the white poppy, under a system of pecuniary advances, the produce to be delivered in the form of opium to the Government at a fixed rate........The total net receipts from the opium monopoly in Bengal amounted in 1856 to 2,767,136."

The revenue derived from transit of opium has a pretty little history : prior to 1831 the British used to buy the opium from the native states (to keep a strict monopoly of the article) through the Resident and hammer it out at Bombay or at Calcutta. But to prevent the large smuggling into the Portuguese Settlements the monopoly policy was given up in favour of the transit duties recovered by way of "passes" at a specified rate to cover the transportation cost to Bombay. The transit duty was at first fixed at Rs. 175 per chest of 140 lbs. each. This process showed a diminution in the returns, consequently the rate was reduced to Rs. 125 per chest.

The conquest of Sindh closed the additional gate of smuggling the opium into the Portuguese territories : consequently it was hoped and rightly that a higher transit duty would give added return as the change in the direction of the trade was impossible. So in 1843 October, the rate was increased to Rs. 200 per chest, in 1845 to Rs. 300 per chest and in 1847 to Rs. 400 per chest.

III. The Salt Tax

Salt is obtained in India in different ways and is taxed in different ways in different parts of the country.

It is obtained either by boiling sea water as in Bengal, or by solar evaporation as in Bombay and Madras or from natural resources such as the salt mines in Punjab and the salt lakes in Rajputana.

In Bengal the Company had a salt monopoly. It was manufactured by the natives who contracted to deliver ail manufactured salt to the Government at a fixed low price. The Government then sold this quantity of salt at six different agencies, Hidgelee, Tumlook, Chittagong, Hiracan, Cuttack, Balasore and Khoredah, at a price which was composed of the actual cost plus the additional amount equivalent to the duty levied on imported salt. As a result of this "the average retail price to the consumer" amounted to about a penny per pound.

The private manufacture of salt was also allowed at Calcutta under a system of excise only equal in amount to the import duty.

But on the recommendation of the select committee of the House of Commons in 1836, there was introduced the system of fixed prices, and open warehouses, at which the sales, instead of being as before periodical "were constantly going on."

In Madras, salt was manufactured on behalf of the Government and was sold for internal consumption. The duty on imported foreign salt was lowered from Rs. 3 per pound to equal the difference between the cost price and the sale price of the article.

In Bombay the salt manufacture was handed over to the individuals under the system of an excise duty equivalent to the import duty on the article. The salt mines of Punjab were worked by the Government and the salt was sold on the spot.

The North-West Provinces depended upon the Lower Provinces of Bengal, the Sambhur Salt lake in Rajputana and parts of western India for their supply of salt. The duties were so arranged that the salt from all parts when it reached the North-West Provinces tended to be equal in price.

IV. Customs

There were innumerable transit or inland duties levied at every town and on every road in the shape of tolls. But they were abolished in Bengal by Act 14 of 1836 : in Bombay by Act 1 of 1838 : and in Madras by Act 6, of 1844 : and uniform system of customs was established all through British India. The evil effects of these inland transit duties will be discussed later on.

There remained two sources of customs revenue :

(1) The sea customs on exports and imports, the former on salt and indigo.

(2) The land customs levied mainly on articles crossing the frontier lines between the native and British territories.

V. Besides the salt and opium monopolies the East India Company had the tobacco monopolies as another source of revenue.

VI. *Abkarree* or revenue obtained from the sale of monopolies to sell spirits and liquors. Licences were sold to the highest bidder who contracted to sell at his own price, the hours of business and the location of the shop being regulated by the Government.

VII. The Wheel-tax was levied upon hackneys, carts, buggys, etc.

VIII. The "Sayer duties" was a collective name for unclassified taxes. In different parts of the country it included different taxes. Once it included the irregular collections made by native revenue officers. In Madras it included the transit duties, in Bengal the pilgrim tax was included under this head. In the Deccan "this source of revenue" was "divided into two great heads the first denominated mohturfa, which embraces taxes on shops, trades, etc.: the other ballootah,* which "comprehended" taxes upon the fees in kind received by the village artisans from the cultivators, and upon their *enam* (rent free) lands when they hold them. In one instance, the percentage upon bad coins was found to be included under the head Sayer."

IX. The Judicial Fees were realized in the form of stamps requisite in cases of different amounts in order to defray legal charges; the value of stamps varied with the amount of the suit.

Suits ranging up to Rs. 16	...	the stamps amounted to Re. 1
From Rs. 16 to Rs. 32	...	Rs. 2
From Rs. 32 to Rs. 64	...	Rs. 4
From Rs. 64 to Rs. 150	...	Rs. 8
From Rs. 150 to Rs. 300	...	Rs. 16
From Rs. 300 to Rs. 800	...	Rs. 32
From Rs. 800 to Rs. 1,600	...	Rs. 50
From Rs. 1,600 to Rs. 3,000	...	Rs. 100
From Rs. 5,000 to Rs. 10,000	...	Rs. 250
From Rs. 10,000 to Rs. 25,000	...	Rs. 500
From Rs. 25,000 to Rs. 50,000	...	Rs. 750
From Rs. 50,000 to Rs. 1,00,000	...	Rs. 1,000
From Rs. 1,00,000 and above	...	Rs. 2,000

Besides this the exhibits filed, summons, answers, replications, rejoinders, supplemental pleadings, the authorization to a lawyer to plead (sanad) are required to be stamped, the stamp only varying according to the status of the court.

X. The Stamp Duties first established in Bengal in 1797 were incumbent on all instruments such as contracts, deeds, conveyances, leases, powers of attorney, policies of insurance, promissory notes, receipts, bail bonds, and legal proceeding generally (bills of exchange under Rs. 25 and receipts under Rs. 50 were being exempted).

In Madras stamp paper was first introduced in 1808, chiefly on legal proceedings: and in 1816 the duties were extended to bonds, deeds, leases, mortgages, bills of exchange and receipts.

In Bombay the tax was first introduced in 1815.

The English mode of distributing stamps was adopted in India.

* *In the Ms. the word is typed as 'balloobeh'*—Ed.

> "The stamp vendors receive their supply from the collector: the vendors give security for the stamps, and distribute them to the parties by whom they are required, receiving a percentage on the sales".

XI. The Mint Revenue was collected in the shape of a seignorage for coining of two percent on the produce, after allowing for the difference of standard and deducting the charges of refining when such were chargeable.

XII. The Marine Revenue was recovered by means of the port and anchorage dues, etc. in order to keep up the useful establishments at Calcutta, Madras and Bombay.

XIII. Subsidies from the native states payable under treaty obligations, amounting to about a half million pounds.

These were the thirteen sources of revenue under the East India Company, many of which continue to be so even today.

III

It will be also interesting to note the entire revenue raised from the different sources and the percentage ratio of each to the whole.

First **the land tax** : its yield and ratio to the entire revenue of British India.

Periods		Land Tax Average Annual Revenue	Ratio of Land Tax to Total Revenue (Per cent)
1792-93 to 1796-97	…	4,068,000	50.33
1797-98 to 1801-02	…	4,126,000	42.02
1802-03 to 1806-07	…	4,582,000	31.99
1807-08 to 1811-12	…	5,078,000	31.68
1812-13 to 1816-17	…	9,018,000	52.33
1817-18 to 1821-22	…	13,263,000	66.17
1822-23 to 1826-27	…	13,567,000	61.83
1827-28 to 1831-32	…	13,112,000	60.90
1832-33 to 1836-37	…	11,942,000	57.00
1837-38 to 1841-42	…	12,380,000	59.05
1842-43 to 1846-47	…	13,432,000	55.85
1847-48 to 1851-52	…	14,947,000	56.06
1852-53 to 1855-56	…	16,183,000	55.40
1792-93 to 1855-56	…	10,349,000	54.07

The Opium Revenue : its yield and ratio to the entire revenue of British India.

Periods		Average Annual Revenue	Ratio to the Total Revenue (Per cent)
1792-93 to 1796-97	...	264,000	3.27
1797-98 to 1881-82	...	312,000	3.18
1802-03 to 1806-07	...	579,000	4.04
1807-08 to 1811-12	...	767,000	4.79
1812-13to 1816-17	...	958,000	5.56
1817-18 to 1821-22	...	1,090,000	5.44
1822-23 to 1826-27	...	1,641,000	7.47
1827-28 to 1831-32	...	1,747,000	8.12
1832-33 to 1836-37	...	1,677,000	8.00
1837-38 to 1841-42	...	1,547,000	7.38
1842-43 to 1846-47	...	2,965,000	12.33
1847-48 to 1851-52	...	3,840,000	14.50
1852-53 to 1855-56	...	4,943,000	16.91
1792-93 to 1855-56	...	1,667,000	8.71

The Salt Tax : its yield and ratio to the entire revenue of British India

Period		Average Annual Revenue	Ratio to the Total Revenue (Per cent)
1792-93 to 1796-97	...	1,207,000	14.93
1797-98 to 1801-02	...	1,188,000	12.10
1802-03 to 1806-07	...	1,589,000	11.09
1807-08 to 1811-12	...	1,785,000	11.14
1812-13to 1816-17	...	1,882,000	10.92
1817-18 to 1821-22	...	2,256,000	11.25
1822-23 to 1826-27	...	2,603,000	11.87
1827-28 to 1831-32	...	2,590,000	12.03
1832-33 to 1836-37	...	2,036,000	9.72
1837-38 to 1841-42	...	2,593,000	12.37
1842-43 to 1846-47	...	2,798,000	11.65
1847-48 to 1851-52	...	2,438,000	9.14
1852-53 to 1855-56	...	2,677,000	9.17
1792-93 to 1855-56	...	2,118,000	11.07

Customs Revenue : its yield and ratio to the entire revenue of British India.

Periods		Average Annual Revenue	Ratio to the Total Revenue (Per cent)
1792-93 to 1796-97	...	192,000	2.38
1797-98 to 1881-82	...	304,000	3.10
1802-03 to 1806-07	...	596,000	4.16
1807-08 to 1811-12	...	807,000	5.04
1812-13 to 1816-17	...	1,159,000	6.68
1817-18 to 1821-22	...	1,667,000	8.32
1822-23 to 1826-27	...	1,663,000	7.58
1827-28 to 1831-32	...	1,747,000	8.12
1832-33 to 1836-37	...	1,506,000	7.19
1837-38 to 1841-42	...	1,418,000	6.76
1842-43 to 1846-47	...	1,449,000	6.02
1847-48 to 1851-52	...	1,439,000	5.40
1852-53 to 1855-56	...	1,611,000	5.52
1792-93 to 1855-56	...	1,190,000	6.22

Miscellaneous Revenue : its yield and ratio to the Entire Revenue of British India.

Periods		Average Annual Revenue	Ratio to the Total Revenue (Per cent)
1792-93 to 1796-97	...	2,315,000	28.64
1797-98 to 1801-02	...	3,809,000	38.79
1802-03 to 1806-07	...	6,857,000	47.87
1807-08 to 1811-12	...	7,452,000	46.49
1812-13 to 1816-17	...	3,990,000	23.16
1817-18 to 1821-22	...	1,392,000	6.94
1822-23 to 1826-27	...	1,986,000	9.05
1827-28 to 1831-32	...	1,789,000	8.31
1832-33 to 1836-37	...	3,059,000	14.60
1837-38 to 1841-42	...	1,434,000	6.84
1842-43 to 1846-47	...	1,636,000	6.80
1847-48 to 1851-52	...	1,977,000	7.40
1852-53 to 1855-56	...	1,575,000	5.39
1792-93 to 1855-56	...	3,043,000	15.90

This much for the sources of revenue and amounts raised from each one of them and their proportions to the whole.

On the expenditure side we note the following heads :

(1) Charges incident to the collection of revenue.

(2) Military and naval charges.

(3) Civil, judicial and police.

(4) Public works.

(5) Interest on Bond Debt in India.

(6) Allowances and assignments to native princes under treaties and their engagements.

(7) Home charges which included :

(a) Interest on Home Bond Debt.

(b) Dividends to Proprietors of East India stock.

(c) Payments on account of Her Majesty's Troops and establishment.

(d) Charges of the East India House and Board of Control.

A tabular arrangement of the expenditure in chronological sequence may be of some value.

Selecting the period 1800 to 1857 we my take every tenth year as a representative year and mark the percentage ratio of Charges to the Revenue of that particular year.

	Net Revenue	Charges	Military Charges	Interest of Debt.	Civil & Political Charges	Judicial Charges	Provincial Police Charges	Bldgs. & Fortifications
	£	£	%	%	%	%	%	%
1809-10 ...	11,238,000	11,076,000	58,877	18,010	7.221	7.525	1.991	1.639
1819-20 ...	13,016,000	12,934,000	64,290	12.805	8.900	6.800	2.093	1.756
1820-30 ...	14,200,000	13,107,000	53,754	12.124	9.575	7.107	1.535	2.810
1830-40 ...	13,742,000	13,004,000	57,721	9.756	12.296	9.565	2.062	1.428
1840-50 ...	19,510,000	16,404,000	51,662	10.512	8.902	7.100	2.062	1.661
1857 ...	33,303,000	28,079,000	45,55	7.19	9.62	9.38		

Public Works

According to Professor Adams the finances of a country are to be judged from the viewpoint of developmental expenditure : and among the developmental expenditure of a country the Public Works take a prominent position.

Applying the same criterion we are compelled to condemn the entire fiscal system of the East India Company.

Before 1853 the administration was engaged in war operations and not only did not project any new scheme of public works, but it allowed the old ones to fall rapidly into decay.

Dr. Spray in his "Modern India" (1837) says "It is in the territories of the independent native chiefs and princes that great and useful works are found and maintained. In our territories the canals, bridges and reservoirs, wells, groves, etc., the works of our predecessors from revenues expressly appropriated for such undertakings are going fast to decay."

Speaking of the Public Works in India, Mr. John Bright said "With regard to public works, if I were speaking for the natives of India, I would state this fact, that in a single English country there are more roads—more travelable roads—than are to be found in the whole of India; and I would say also, that the single city of Manchester, in the supply of its inhabitants in the single article of water, has spent a larger sum of money than the East India Company has spent in the fourteen years—from 1834 to 1848— in public works of every kind throughout the whole of its dominions. I would say that the real activity of the Indian Government has been an activity of conquest and annexation."

Before the "Department of Public Works" was made uniform for all the Presidencies of India the important branch of administration was conducted in various ways.

In Bombay it was conducted by the Military Board : Though subordinate, the Superintendent of Roads and Tanks was outside the Military Board.

In Bengal the Military Board had the entire control.

In Madras the administration of this department was threefold : There was—

(1) The Public Works Department of the Board of Revenue.

(2) The Superintendent of Roads.

(3) The Military Board.

This variety in the system was reduced to uniformity by Lord Dulhousie who created a separate department of the state for dealing with questions connected with Public Works.

We will review in brief the Public Works that were executed under the regime of the East India Company.

(1) Canals

Ganges Canal—449 1/2 miles.

East and West Jumna Canal—445 miles of the West Jumna Canal were completed.

Punjab Canals—425 miles of the Boree-Doab Canal in the Punjab were executed in May, 1856.

Madras Irrigation Works—Tanks, reservoirs, and "annicuts" or dams, across the beds of the Cauvery, Godavery, and Kistna Rivers.

(2) Truck Roads	miles	cost
From Calcutta to Peshawar	1,423	1,423,000
From Calcutta to Bombay	1,002	500,000
From Madras to Bangalore	200	37,121
From Bombay to Agra	734	243,676
From Rangoon to Prome	200	160,000
(3) Railways		
From Calcutta to Burdwan	120	
From Bombay to Wassind	50	
From Bombay to Compooie	10	
From Madras to Vellore	81	
(4) Electric Telegraphs		
From Calcutta to Peshawar From Agra to Bombay From Bombay to Madras	in all about 4000 miles	

Mr. Hendricks says "Comparative to area and population, the extension of these works has not been either so great or so continuous as might be desired. If we exclude those undertakings that are of a purely military character, and review the items which may be classed under Land and Water Channels of Communication and Irrigation Works, or in other words, the Revenue—productive Public Works, in recent years of most activity, it appears that an outlay of about one million and a half sterling has been the maximum for one year. If we take the most immediately productive works, viz.: of Canalization, Irrigation, it will be seen that not more than 738,015 in the year 1853-54, and 543,333 in the year 1854-55, was thus expended.

> "The condition of the Revenue, as preventing a more rapid and extensive outlay, has hitherto been an answer to those who might have been disposed to urge that even these amounts are insignificant, when the British Indian territory of 837,000 square miles, and its 132,000,000 of souls are considered. This answer resolves itself purely into one of alleged difficulty. That this difficulty is only apparent, and might be remedied, is evident, not only from the practical testimony of the productive results of such expenditure in the instances before adverted to, but also from the history and policy of the other branches of the Colonial Empire of this country. And the history of the East India Company, or of the trading companies of other countries, has shown no exception to the general rule, that expenditure on carefully selected objects of enterprise may often appear lavish and purposeless when it is but showing the field whose harvest is the proof of the wise economy of that expenditure."

The Pressure of the Revenue

This branch of our study is entirely out of question : not that it is beyond our scope but there are innumerable drawbacks in our way. First and foremost is, that we have no absolutely correct statistics regarding population. Census was never known at that period and any estimate of the population is at nest a guess too broad and vague to be made the basis of any scientific conclusion.

Another serious handicap in the way of such a study is the fact that every year the East India Company saw its territory extended by several units of miles and one often wonders whether the swell in the revenue is due to the high rate of taxation or the extension of territory.

Thirdly, the Revenue accounts of the East India Company are anything but perfect. As noticed before, they were mixed with the commercial accounts till 1813 and when they were separated by the Parliamentary mandate they were hardly made intelligible.

These serious handicaps consequently compel us to leave aside this important phase of our study. Certain detached statements if grouped together may *convey* to us some idea regarding the pressure of the Revenue. Speaking about the Land Tax alone, Mr. R: C. Dutt, besides whom there is no better authority on the subject, says, "The Land Tax levied by the British Government is not only excessive, but, what is worse, it is fluctuating and uncertain in many provinces. In England, the Land Tax was between one shilling and four shillings in the pound, i.e. between five and twenty percent of the rental, during a hundred years before 1798, when it was made perpetual and redeemable by William Pitt. In Bengal the Land Tax was fixed at over ninety percent of the rental, and in Northern India at over eighty percent of the rental, between 1793 and 1822. It is true that the British Government only followed the precedent of the previous Mohamedan rulers who also claimed an enormous Land Tax. But the difference was this, that what the Mohamedan rulers claimed they could never fully realize : what the British rulers claimed they realized with rigor. The last Mohamedan ruler of Bengal, in the last year of his administration (1764) realized a land revenue of £817,553 : within thirty years the British rulers realized a land revenue of £ 2,680,000 in the same Province. In 1802 the Nawab of Oudh ceded Allahabad and some other rich districts in Northern India to the British Government. The land revenue which was claimed by the British rulers within three years of the cessation was £ 1,682,306. In Madras, the Land Tax first imposed by the East India Company was one-half the gross produce of the land. In Bombay, the land revenue of the territory conquered from the Marattas in 1817 was 800,000 in the year of the conquest: it was raised to 1,500,000 within a few days of the British rule : and it has been continuously raised since. "No native prince demands the rent which we do," wrote Bishop Heber in 1826, after travelling all through India, and visiting British and native states. "A Land Tax which now exists in India," wrote Colonel Briggs in 1830, "professing to absorb the whole of the landlord's rent, was never known under any government in Europe or Asia."

> "The people of Bengal and of Northern India gradually obtained some relief from the heavy land assessment of the early years of the British rule. In Bengal the assessment was made permanent; and it has not been raised with the extension of cultivation, it now bears (including Road and Public Works assessments, which have been since imposed on the rental) a ratio of about 35 per cent on the rental. In Northern India the assessment was not made permanent, but was reduced to slightly over 50 per cent including all assessments, in 1855. But new assessments were added : calculations were made not on the current, but on the prospective rental until the tax rose to close upon 60 per cent on the rental."

In Bombay and Madras things remained pretty much the same. In both these Presidencies the Ryotwar Settlement prevails. The working of this Ryotwar system of land tenure during the regime of the East India Company is best described by Mr. Fullerton (member of the Madras Government)— "Imagine," he says, "the whole landed interest—that is, all the landlords of Great Britain, and even the capital farmers, at once swept away from off the face of the earth : imagine a rent fixed on every field in the kingdom, *seldom under, generally above* its means of payment: imagine the land so rented, lotted out to the villagers according to the number of their cattle and ploughs, to the extent of forty or fifty acres each. Imagine the revenue rated as above, leviable through the agency of one hundred thousand revenue officers, collected or remitted at their discretion, according to their idea of the occupant's means of paying, whether from the produce of his land or his separate property : and in order to encourage every man to act as a spy on his neighbour, and report his means of paying, that he may eventually save himself from extra demand; imagine all the cultivators of a village liable at all times to a separate demand, in order to make up for the failure of one or more individuals of the parish. Imagine collectors to every country acting under the orders of a board, on the avowed principle of destroying all temptation to labour, by a general equalization of assessment: seizing and sending back runaways to each other: and lastly, imagine the collector, the sole magistrates, or justice of the peace of the country, through the medium and instrumentality of whom alone, any criminal complaint of personal grievance suffered by the subject can reach the superior courts. Imagine, at the same time, every subordinate officer, employed in the collection of the land revenue to be a police officer, vested with the power *to fine, confine,* put in *the stocks,* and flog any inhabitant within his range, on any charge, without oath of the accuser, or sworn recorded evidence in the case."

To this Mr. Martin adds, "If anything could open the eyes of those who uphold the Ryotwar System at Madras, these torture revelations ought to do so. The late Mr. Sullivan, member of Council at Madras, declared to the author, that when he saw the cartloads of silver leaving his cutchery (treasury) for Madras, and remembered the poverty of the people from whom it was collected, he shuddered at the thought of their prospect during the ensuing year, as the demands of the government were inexorable and a certain amount of money must be forthcoming."

The Pressure of Inland Transit duties will be considered later when we come to the economic condition of India during the Company's rule.

As over against this pressure of taxation we have *very* little information regarding the income of the people.

Nothing gives a better idea of the pressure of the tax than its comparison with the income : but our knowledge of the income of the people is *very* scanty. According to Munro the average wages of an agricultural laborer was between 4s. and 6s. monthly and that the cost of subsistence was between 18s. and 27s. a head per annum.

What was the pressure of the tax we do not know. Circumstantial evidence goes to prove that it must have been great.

IV

Mr. Martin sums up the entire financial history most succinctly as follows :—

> "The expectations raised by Clive of the prosperity which would follow the territorial acquisitions of the Company, were so far from being fulfilled, that it was found on this (when the Dewanee of Bengal and Behar was granted to the Company) and on subsequent occasions, that increase of revenue was almost invariably attended with more than commensurate

increase of expenditure : the cost of government by Europeans, the growth of a standing army in each Presidency, and other sources of legitimate or illegitimate expense, swallowing up all the anticipated surplus, and leaving nothing for the development of the resources of the country or even the maintenance of roads, canals, and other public works constructed by native rulers."

Strange to say, the financial afairs of the Company were woefully mismanaged. A writer of the time said, "We have an army officered by British soldiers, manoeuvered according to European tactics. The spirit and much of the letter of the English law pervades our jurisprudence : our assessments for revenue are supposed to be based upon the doctrines laid down by Adam Smith and his followers (?). Our finance alone is Indian. Our military men study the strategy of Jomini : Blackstone and Bentham, Mills and Ricardo are the text-books of our civilians, but the system of our financiers is almost the same now as that of Abul Fazal, Akbar's minister some three centuries ago."

Year			Gross Revenue	Gross Expenditure
			£	£
1792-93	...	...	5,512,761	3,873,859
1793-94	...	...	8,276,770	6,593,129
1794-95	...	...	8,026,193	6,567,808
1795-96	...	...	7,866,094	6,888,997
1796-97	...	...	8,018,171	7,508,038
1797-98	...	...	8,059,880	8,015,327
1798-99	...	...	8,652,033	9,139,363
1799-1800	...	...	9,736,672	9,955,390
1800-01	...	...	10,485,059	11,468,185
1801-02	...	...	12,163,589	12,410,045
1802-03	...	...	13,464,537	12,326,880
1803-04	...	...	13,271,385	14,395,405
1804-05	...	...	14,949,395	16,115,183
1805-06	...	...	15,403,409	17,421,418
1806-07	...	...	14,535,739	17,508,864
1807-08	...	...	15,669,905	15,850,290
1808-09	...	...	15,525,055	15,392,889
1809-10	...	...	15,655,985	15,534,711
1810-11	...	...	16,679,197	13,909,981
1811-12	...	...	16,605,615	13,220,966
1812-13	...	...	16,336,290	13,515,828
1813-14	...	...	17,228,711	13,617,725

Year			Gross Revenue	Gross Expenditure
			£	£
1814-15		…	17,297,280	15,955,006
1815-16	…	…	17,237,819	17,059,968
1816-17	…	…	18,077,578	17,304,162
1817-18	…	…	18,375,820	18,046,194
1818-19	…	…	19,459,017	20,396,587
1819-20	…	…	19,230,462	19,689,107
1820-21	…	…	21,352,241	20,057,252
1821-22	…	…	21,803,108	19,856,489
1822-23	…	…	21,171,701	20,083,741
1823-24	…	…	21,280,384	20,853,997
1824-25	…	…	20,750,183	22,504,156
1825-26	…	…	21,128,388	24,168,013
1826-27	…	…	22,383,497	23,312,295
1827-28	…	…	22,863,263	24,053,837
1828-29	…	…	22,740,691	21,718,560
1829-30	…	…	21,695,208	20,568,358
1830-31	…	…	22,019,310	20,233,890
1831-32	…	…	18,317,237	17,048,173
1832-33	…	…	18,477,924	17,514,720
1833-34	…	…	18,267,368	16,924,332
1834-35	…	…	28,856,647	16,684,496
1835-36	…	…	. 20,148,125	15,994,804
1836-37	…	…	20,999,130	17,363,368
1837-38	…	…	20,858,820	17,553,525
1838-39	…	…	21,158,099	21,306,232
1839-40	…	…	20,124,038	22,228,011
1840-41	…	…	20,851,073	22,546,430
1841-42	…	…	21,837,823	23,534,446
1842-43	…	…	22,616,487	23,888,526
1843-44	…	…	23,586,573	24,925,371
1844-45	…	…	23,666,246	24,293,647
1845-46	…	…	24,270,608	25,662,738
1846-47	…	…	26,084,681	26,916,188
1847-48	…	…	24,908,302	26,747,474
1848-49	…	…	25,396,386	26,766,848
1849-50	…	…	27,522,344	26,960,988
1850-51	…	…	27,625,360	27,000,624
1851-52	…	…	27,832,237	27,098,462
1852-53	…	…	28,609,109	27,976,735
1853-54	…	…	28,277,530	30,240,435
1854-55	…	…	29,133,050	30,753,456
1855-56	…	…	30,817,528	31,637,530
1856-57	…	…	31,691,015	31,608,875
1857-58	…	…	31,706,776	41,240,571

Taking into account the period between 1792 to 1857 Mr. Romesh Chandra Dutt says, "It will be seen that if there were fourteen years of deficit, there were thirty-two years of surplus; and if the deficit amounted altogether to nearly seventeen millions the surplus amounted to nearly forty-nine millions. The net financial results of Indian administration was therefore a surplus of thirty-two millions during forty-six years. But this money was not saved in India, nor devoted to irrigation or other works of improvement. It went as a continuous tribute to England to pay dividends to the Company's shareholders; and as the flow of the money from India was not sufficient to pay the dividends, there was an increasing debt called the Public Debt of India." [1. R. C. Dutt. "India under Early British Rule." p. 408.]

There were two distinct ways in which loans were raised in England and in India.

In India when the government was in need of money it advertized that the Treasury was open to receive money upon loan at certain rates specified in the advertisement and upon the conditions there contained. So long as the loans remained open, parties were admitted to make what payments they pleased, and to receive what are called loan notes in acknowledgment, and these to any amount. The money raised on loan was all raised in India.

In England a different mode operated. The only mode, it was so stipulated by the Parliament, by which the East India Company was able to raise loan there was analogous to that of other corporations viz. on bonds, and all the Home debt was raised on bonds.

The Public Debt of India, at least under the Company's rule was entirely the creation of war.

We will follow the progress of these two debts separately.

The Indian Debt

In 1792 the Indian Debt was a little over £7,000,000 : within seven years it had risen to £10,000,000. In 1800 it was £ 14,625,384 carrying a total interest of £ 1,342,854. Now came the wars of Wellesely with the Marathas and in one sweep he raised the Indian Debt to the amount of £ 30,098,857 in 1807-08 bearing a total annual interest of £ 2,339,087. After the conclusion of peace, attempts were made to lower the debts by redemptions : as a consequence of this policy the Indian Debt was brought down in 1810-11 to £ 22,545,843 and the interest to £ 1,503,434. But wars were the rule and peace the exception : and in 1819-20 by the Nepal War and the First Maratha War the Indian Debt was raised to £ 31,338,855. By 1823-24, as a result of the intervening peace, the debt was reduced but the next year the First Burmese War of 1824-25 raised it to £ 38,316,486. In 1835-36 the debt was reduced to £ 31,821,118 : but a train of military operations were awaiting India. The Afghan War, the Sindh War, the two Sikh Wars, the Second Burmese War increased the debt which in 1852-53 amounted to £52,313,094 and the interest to £2,479,133. In 1853-54, however, the Indian Debt was reduced to £49,762,876. In 1853-54 the Public Works policy was inaugurated and as a consequence of it the Indian Debt increased to £ 55,546,650 in 1855-56. The year 1857-58 witnessed what is known as the Indian Mutiny or the War of Independence, raising the Indian Debt *to* £ 60,704,084.

The Home Bond Debt (in England)

In 1800, the Home Bond Debt amounted to £ 1,487,112 at 5 % interest. But the wars of Wellesly also told upon the Home Debt and increased to £ 4,205,275 in 1807-08 : in 1811-12 the Home Bond Debt reached its maximum limit of £ 6,565,900 at 5 %. In 1816-17 the rate of interest was reduced to 4 % and it never rose above it. In 1814-15 the Home Bond Debt was reduced to £4,376,976. By occasional reductions it lowered to £ 1,734,300 in 1840-41. As a result of the Afghan War and the Mutiny the Home Bond Debt rose to £ 3,894,400, besides £ 40,000,000 as the cost of the Mutiny.

It is likely to be a matter of surprise when one sees the smallness of the Indian Home Bond Debt as compared with the Indian Debt. But the surprise will no longer exist when we know that the capacity of the East India Company to borrow in England was strictly limited by Parliamentary Regulations. The Parliament was ever eager to obtain the advantages of the rule of the Company without its disadvantages. It was eager to obtain command of the Indian Empire, but till the end was achieved always looked upon it as problematical and did not want to jeopardize the interests of the country in a project which in spite of its apparent success looked anything but certain of beneficial results. Hence, the Parliament put a strict embargo on the Company's raising the loans beyond a certain limit lest the Company lose its hold upon India and bring ruin on England by jeopardizing English capital.

V

INDIA AND THE ACT OF 1858

The East India Company in spite of the fact that she was a source of great prosperity to England suffered great humiliation at the hands of the British Parliament and people.

The East India Company was jealous of her monopoly of the Indian trade and the British were determined to derive as large a gain as possible for allowing her that privilege. Every weakness in the administration was made an excuse for extortion and interference : and renewal of charter was often an occasion to disgorge her of her wealth accumulated by the monopoly of Indian trade.

Very early in the history of the Company a controversy as to this monopoly of trade had arisen and pros and cons were acrimoniously discussed. Up to 1833 the Company, by means fair or foul, managed to win over the English statesmen to continue her monopoly. But in that year the cry against her monopoly had grown so loud that both the Company and the Ministers had to give in and the East India trade was thrown open to all the English public.

By the Act of 1834 the Company ceased to be a commercial corporation. How the obligations of the Company were met may be seen from the following :

> "The tangible commercial property sold under the Act of 1834, realised £15,223,480 which was thus disposed of :

> £8,191,366 towards discharges of India Debt : £2,218,831 was applied in payment of territorial charges in England : £ 1,788,525 was applied in liquidation of part of the Home Bond Debt : £ 2,000,000 was paid into the Bank of England, for investment in the funds, to provide a "Security fund" at compound interest, for the ultimate redemption of the capital stock of the Company (6,000,000) in 1874 : £561,600 was applied in compensations to ship-owners and other persons : and the remainder of £ 463,135 was retained in England, as an available cash balance for the purposes of government in India. The unavailable assets claimed as commercial by the Company—viz. the India House in Leaden Hall Street, one ware-house retained for a military store department, and house property in India, the whole valued at £ 635,445—remains in the hands of the Company but applicable to the uses of the Indian Government."

Though as a trading body the Company disappeared, she continued her existence as a political sovereign of her territories in India. Unfortunately for the Company her days were fast being numbered.

It is an error to suppose that the East India Company was abolished because of her inefficiency as manifested in the Mutiny of 1857. On the contrary, before the mutiny had actually taken place, the discussion about the direct assumption of the Government of India by the Crown was set afloat, which is indicative of the fact that mutiny or no mutiny, the British statesmen were impatient to have direct control over the "leaves and the fishes" that came but indirectly from their rule in India by a process of disgorging a corporation which directly fed them on beef fat.

This round about process was tiresome and mentally exhausting for impatient minds. Lord Palmerston having been returned by a strong majority in 1857 as a result of his success in the Crimean War immediately notified the Directors of the Company to their great surprise that he proposed to introduce a Bill for the abolition of the Company and the resumption of the direct Government of India by the Crown.

Unfortunately, the mutiny did occur in 1857 and gave a strong impetus to the abolition movement already in full swing.

On the 31st day of December, 1857, the Chairman and the Deputy Chairman of the Company replied to the notification of Palmerston urging that "an intermediate, non-political, and perfectly independent body" similar to the Company was a necessity for the administration of India.

Besides this the Company sent a formal petition to both Houses of Parliament. John Stuart Mill who drafted the petition showed the fallacy in the arguments of the mover of the Bill for the abolition of the Company. From the very beginning the Crown had exercized its control over the Indian Government through its Minister presiding over the Board of Control. Between the Government in India and the Crown Minister there was the Court of Directors which the new Bill wanted to do away with. Mill argued that this Court of Directors (the organ of the East India Company), the embodiment of experience was a good guide for the Crown Minister who really controlled the entire administration of India, and said that if evils have really arisen from the mode of administration the remedy that was sought viz. of doing away with the Court of Directors and thus making the Crown Minister an autocrat was worse than the disease. "To believe that the administration of India would have been more from error had it been conducted by a Minister of the Crown without the aid of the Court of Directors, would be to believe that the Minister, with full powers to govern India as he pleased, has governed ill, because he had the assistance of experienced and responsible advisers."

A diversity of opinion prevailed as to the future connection of India with England.

The Stanlay Review, an important newspaper in England argued that the East India Company be maintained to keep India away from English politics. It made quite a point of the fact that Englishmen who went over to India became autocrats and that in it there was a danger to democracy. It boldly proclaimed that "India, like a colossal torpedo, will paralyze the beneficient activities and benumb the free moral life of England"...... and if......"brought full in sight of England, will serve her as a great school, in which she may learn the principles of the King of Naples and the practices of Mrs. Stowe's Legree."

Others, notably a certain Richard Congreve, a disciple of Conte pleaded that India should be left to work out her own destiny. He maintained that the rule of one people by another is demoralizing and not wise for the better development of humanity. In order to prevent any other nation from stepping into India after the English had left he proposed that an international board be appointed to regulate the administration which was ultimately to devolve upon the Indians when they became capable of self-government.

None of these views, however, fall in with those of the British Parliamentarians who decided differently. They were determined to abolish the East India Company and take the government of India immediately-under the Crown : they desired to substitute direct government for the double government. As a result of this neither the petition nor the independent public opinion proved of any effect and Palmerston introduced his Bill for the Abolition of the Company and the future government of India. Before the Bill was passed, the Conspiracy Bill threw out the government of Palmerston which was succeeded by a conservative one under the leadership of Lord Derby. After Lord Palmerston's Bill had gone out by his overthrow, Benjamin Disraeli, the Chancellor under Lord Derby introduced his India Bill. John Stuart Mill's comparison of the merits of the two bills is very instructing and later events have borne out his contentions. He says :—

> "The means which the Bills provide for overcoming these difficulties (of the government of one nation by another) consist of the unchecked power of a minister. There is no difference of moment in this respect between the two Bills. The minister, it is true, is to have a Council. But the most despotic rulers have Councils. The difference between the Council of a despot, and a Council which prevents the ruler from being a despot is, that the one is dependent on him, the other independent; that the one has some power of its own, the other has not. By the first Bill (Lord Palmerston's Bill) the whole Council is nominated by the minister; by the second (Disraeli's Bill) one half of it is nominated by him. The functions to be entrusted to it are left, in

both, with some slight exceptions, to the minister's own discretion."

Disraeli's Bill suffered worse fate than the one of Lord Palmerston. It simply fell. A new bill was therefore introduced in August, 1858, and passed designated as an "Act for the better government of India."

The Provision of this Act (of Section 75) which still largely regulate the administration of India may be divided into classes according to their nature :

(1) Those dealing with the past affairs.

(2) Those dealing with the future affairs.

We will first consider those that deal with the past affairs—mainly the settlement of the fiscal and commercial obligations of the Company. Section 42 of this Act "provided that the dividend on the capital stock of the East India Company, should be charged and chargeable upon the revenues of India alone."

Amidst all the questions between India and England that had to be settled with equity none was more prominent than the question of the Indian debt. Who should bear the burden of the Indian debt was the burning question of the time. The crux of the question was who was responsible for it and what was its purpose ?

The most enlightening commentary on the problem is that of Major Wingate who immediately after the mutiny argued :

> "Have the people of India had a voice in the management of their affairs, or have the taxation and expenditure of the Indian Government been regulated with a view to the welfare of India alone, without intervention or interference on the part of the government of this country ? By no means, the Government of India, whether viewed with reference to its forms or powers, has been, from the first hour of its existence up to the present time, the creation of the British Parliament. The power vested in the Government of India to contract debt, was a delegation of authority from the British Parliament, which, up to this hour, as in the case of the last debenture loan, exerts a right of interference over its exercise...... The East India Company have been declared by Parliament to have been simply trustees for the British nation, which, in accordance with this

view, altered the conditions of their trust from time to time, and finally relieved the trustees of its exercise altogether. When the subject is carefully examined, it will be found that the Government of India, so far from being the Government of a distinct state, has been, from the first, simply a *department of the British Government*. The British ministry, acting through the President of the Board of Control, formed the real motive power which decided the policy of successive Indian administrations, and the East India Company was simply a convenient screen...... If the facts be so, then, and they cannot be gainsaid, we seem to be shut up to the conclusion that the acts of the Government of India, from first to last, have been the acts of the British nation. India has never had even the shadow of a constitution, or of a national government, but has been ruled as a conquered country, according to the views of successive British Parliaments and the British administrations. **The Indian debt has really been incurred by the Government of this country : and how, then, can we possibly shake ourselves free of Indian liabilities ?"**

Mr. Wingate also appealed to the humane part of the British public by dwelling upon the advantages to England and the injuries to India :

"In proceeding to consider these advantages, there is one most important fact, which should ever be present to the mind of the reader, and that is, that those advantages, be they great or small, have cost the nation nothing to acquire. This may sound as a startling assertion in the ears of Englishmen of this generation, who have not yet forgotten the heavy bills which they have had to pay for Canada rebellions, Caffre wars, Ceylon insurrections, and many manumissions of West Indian Slaves; and who are annually reminded of the cost of governing, or protecting our colonies and dependencies, by the financial estimates submitted to Parliament; but the assertion, nevertheless, is strictly and liberally correct. "Strange," may we wonderingly exclaim, "that we, who have spent so much on our colonial possessions, and have waged so many costly wars for thankless foreigners, should have laid out no money in the acquisition or improvement of our great Indian Empire. The thing cannot be : it is too astounding for belief." Astounding indeed it is : but there is something still more astonishing behind; for not only is it a fact that India has been acquired without the expenditure of a single shilling on the part of this country, but it is equally a fact that, so far from involving outlay, India has regularly paid to Great Britain a heavy tribute, which there is reason for thinking has not fallen far short of the almost incredible sum of a hundred millions sterling in the course of the present century."...... " The Indian tribute, whether weighed in the scales of justice, or viewed in the light of our own true interest, will be found to be at variance with humanity, with common sense, and with the received maxims of economical science."

Touching the grievances of India, Mr. Wingate asked the English public :

"Has our policy in India been determined out of pure, unselfish, and benevolent regard for the welfare of the people of that country, and without the smallest regard for the manner in which it may affect our own away ? Was this the principle which guided us in imposing prohibitive duties upon Indian manufactures imported into this country, and merely nominal duties upon British manufactures imported into India ? Was it out of pure regard for India that cotton exported to Great Britain from India, is exempt from duty, while it is taxed on exportation to all parts of the world besides ? Was it Indian interest which dictated the fixing of import duties upon goods brought to India in British ships, at one-half of the amount levied upon similar goods brought in ships to any other country ? Were native interests solely concerned in the exemption of Europeans in India from the jurisdiction of the ordinary courts of criminal justice, by which native redress for British wrong-doing, has been made a practical impossibility in ninety-nine cases out of a hundred ? Was it out of consideration for the tax paying Hindoo and Mohamedan, that the official European in India was provided with a costly ecclesiastical establishment before anything else was done for their education or enlightment ?

> Was it unselfish regard for the natives that dictated the policy of obtaining, upholding and extending British dominion in the East, by means of taxes raised in India, in opposition to the rule obtaining in all other British dependencies, of providing for the costs of their military defence from the British Exchequer ? And lastly, were the arrangements for defraying what is styled "the home charges," out of the Indian revenues, under which nearly one hundred millions sterling of taxes collected in India, have been transferred to Great Britain in the course of the present century, devised for the purpose of benefiting the people of India alone ? Let the candid reader thoughtfully and conscientiously answer these questions for himself, and then say whether British interest as well as Indian interests have not had a share in determining the course of our Indian policy."

All the arguments legal and humanitarian failed to win the day. The English Parliament flatly refused to share in the Indian Debt which created the acquisition of the Empire. The entire heavy load of the debt of the East India Company amounting to £ 69,473,484—mostly unproductive—was placed on the shoulders of the poverty-stricken natives who had *no* voice in the doings of the Company. This was not all : the unfortunate mutiny had cost £ 40,000,000, and as a legitimate expenditure for the acquisition of an empire, England in justice ought to have paid the cost of the mutiny. John Bright who often expoused the cause of the Indian tax-payers appealed to the Parliament saying "that the forty millions which the revolt will cost is a grievous burden to place upon the people of India. It has come from the mismanagement of the Parliament and the people of England. If every man had what was just, no doubt that forty millions would have to be paid out of the taxes levied upon the people of this country (England)."

The practical outcome of these unjust arrangements was that the people of India purchased the empire at many millions for the debt was only a part of the cost, and made an offering of it to the British Crown : in other words, the Empire was either a gift or a trust.

The arrangements regarding the stock of the East India Company are in the same iniquitous strain. The stock of the Company was redeemed by a loan which was also added to the already enormous debt consolidated into what is known as the India Government Debt.

What the Act really did was to annihilate the Board of Control : the Company though legally extinct continues to live for all practical purposes and enjoys her dividends even to this day in the shape of interest paid out of Indian revenues. The astounding result of this policy was **gains to England and costs to India.** When every effort at giving justice to India failed in the British Parliament, Lord Derby moved that this enormous debt of India be guaranteed by the Parliament so that on the security of it the interest rate be lowered and the Indian tax-payer be relieved. He said :

> "I am aware that the uniform policy of the Parliament and the Government of this country has been to decline all responsibility in regard to the debt of India, which has been held to be a charge only on the Indian Exchequer. Dealing with the present state of affairs I may say at once that I am not going to recommend any change in that policy. I know well the alarm which any such proposition would create and I know the refusal which it would inevitably receive. But this is a question which will recur again and again, and which will have to be considered in the future as well as in the present.
>
> I would likewise ask the House to bear in mind that if ever the time should come when the established policy in this respect should undergo a change, and when a national guarantee should be given for those liabilities, that guarantee would operate to reduce the interest paid upon the Indian Debt by no less than £ 750,000 or even £ 1,000,000 which, formed into a sinking fund, would go far to pay off the whole."

John Bright who through sheer short-sightedness opposed said :

> "I object to an Imperial guarantee on this ground—if we left the services of India, after exhausting the resources of India, to put their hands into the pockets of the English people, the

people of England having no control over Indian expenditure, it is impossible to say to what lengths of unimagined extravegance they would not go : and in endeavoring to save India, may we not go far towards ruining England ?"

Not only was there no warrant for Mr. Bright to magnify this danger so much, but he failed "to see that the people of England would have very soon ceased to neglect the affairs of India, and would have obtained a real control over Indian expenditure, if some share of the liability of the Indian Debt had been thrown on them."

The discussions were all abortive and did not even recompense the breath that was wasted and in no sense did the natives get any relief from "the direful spring of woes unnumbered."

Let us now see what the Act willed for the future. Section 55 said, "excepting for preventing or repelling actual invasion of her Majesty's Indian possessions, or under other sudden and urgent necessity, the revenues of India shall not, without the consent of both Houses of Parliament, be applicable to defray the expenses of any military operation carried on beyond the external frontiers of such possessions by her Majesty's forces charged upon such revenues."

With profound respect for the intellect of Mr. R. C. Dutt, one, however, cannot understand on what ground does he characterise this section as "one salutary financial provision". That it was an improvement over the financial administration of the East India Company no one can doubt. But it is by no means salutary in that the revenues of India have been spent outside India for non-Indian purposes, even after the Act. The fatal error lay in this,—the excepting clause in the above section which sanctions the expenditure of Indian revenue outside of India omits the vital word previous. The clause in order to be salutary in effect ought to run—"the revenues of India shall not, without the previous consent of both Houses of Parliament, be applicable etc......" and not in the way it does. An unknown writer says, "in all probability that essential proviso was comprised in the original draft, but afterwards eliminated by the

> same mischievous hand which contrived in Sections 26,27,28 to secure the entire immunity, irresponsibility, and personal autocracy of the secretary of state."

After showing that Lord Stanely and the Earl of Derby who had so much to do with the framing of the statute were united in including the neglected proviso the writer quotes the opinion of Mr. Gladstone regarding Section 55 as follows :—

> In my view it was the purpose of this clause to require the **Preliminary** consent of parliament to the issue of Indian money for the purpose of operations carried on by the forces charged upon India beyond the Indian frontier, except in certain special cases, which were very carefully defined. It was, in fact, to prevent the use of Indian money for military operations. I remember this; for I myself was the author of the clause, and the present Lord Derby, who was Secretary of State for India at the time, concurred with me as to its objects."

The same writer goes on to say :

> "There are few, if any causes, that have brought more disaster and financial damage to "India of the Queen" than has the utter disregard of the safeguards ostensibly ordained under these despised and neglected provisions of the Act. We are well aware that, even had the saving word "previous" been included in the Section, the clamour on behalf of pseudo-Imperial interests, or the exigencies of party schemes, might have sufficed to override the claims and rights of the Indian people. **But that word would, at least, have secured an invaluable respite, during which the voice of reason might have been heard."**

The non-fiscal sections of this Act were :—

(1) The territories of the East India Company were vested in her Majesty, the Queen, and the powers exercised by the East India Company and the Board of Control were vested in the Secretary of State for India. He was to have a Council of fifteen members who would hold office during good behaviour, and each member was to have a salary of £ 1200 a year out of the revenues of India. The pay of the Secretary of State and all his establishment would similarly be charged to India.

(2) The Secretary of State was empowered to act against the majority of the Council except in certain specified matters. And on questions of peace and war (which had hitherto been dealt with by the Board of Control through the Secret Committee of the Court of Directors), the Secretary of State was empowered to send orders to India without consulting his council, or communicating them to the members.

(3) The Governor-General of India and the Governors of Madras and Bombay would henceforth be appointed by Her Majesty the Queen; and the appointments of Lieutenant-Governors would be made by the Governor-General subject to the approbation of Her Majesty. Rules should be framed by the Secretary of State for admission into the Civil Service of India by competition.

The evil tendencies of the administrative section above referred to have been attested to be (1) autocracy, (2) secrecy, and (3) irresponsibility, all of which are inimical to the good administration of the country. It is lementable that the Act made no provision for enlisting the voice of the natives in the administration of their own country. In this vital respect, can any one say that the administration of the Company differed very much from the administration of the Crown ?

In order to give publicity to the provisions of this Act, Queen Victoria asked Lord Derby (apparently not being satisfied with the first draft of it) to issue a Proclamation which, as she said, "should breathe feelings of generosity, benevolence, and religious toleration, and point out the privileges which the Indians will receive in being placed on an equality with the subjects of the British Crown, and the prosperity following in the train of civilization."

This Proclamation was read out in India and has been regarded as the Magna Charta of India not that the Magna Charta contained the rights of people but that it was a Great Document.

It remains, however, to estimate the contribution of England to India. Apparently the immenseness of India's contribution to England is as much astounding as the nothingness of England's contribution to India. Both are, however true statements if looked at from economic points of view. But from another point of view, if India's tribute cannot be weighed in the scales of justice and humanity then England's contribution cannot be weighed in the scale of gold and silver. The last statement is both literally as well as figuratively true. England has added nothing to the stock of gold and silver in India : on the contrary, she has depleted India— "the sink of the world."

Her contribution lies in an uneconomic realm : but just the same, it is too great to be measured in terms of coin.

> "Englishmen can look back on their work in India, if not with unalloyed satisfaction, at least with some legitimate pride. They have conferred on the people of India what is the greatest human blessing—Peace. They have introduced Western education, bringing an ancient civilized nation in touch with modern institutions and life. They have built up an administration which, though it requires reform with the progress of the times, is yet, strong and efficacious. They have framed wise laws, and have established Courts of Justice, the purity of which is as absolute as in any country on the face of the earth. These are results which no honest critic of British work in India regards without high admiration."

But whether mere animal peace is to be preferred to economic destitution, let every one decide for himself.

••

Book 2

THE EVOLUTION OF PROVINCIAL FINANCE IN BRITISH INDIA

A STUDY IN THE PROVINCIAL DECENTRALIZATION OF IMPERIAL FINANCE

By

B. R. Ambedkar

Sometime Professor of Political Economy at the Sydenham College of Commerce and Economics, Bombay

Author of "The Problem of the Rupee," "Castes in India," "Small-Holdings in India and their Remedies"

WITH A FOREWORD BY

EDWIN R. A. SELIGMAN

Professor of Economics, Columbia University, New York

[Reprint of the edition published by P. S. King & Son Ltd. Westminster, Great Britain, 1925]

Dedicated to

HIS HIGHNESS SHRI SAYAJIRAO GAIKAWAD

MAHARAJA OF BARODA

AS A TOKEN OF MY GRATITUDE FOR HIS HELP IN THE MATTER OF MY EDUCATION

PREFACE

For a long time to come students will be saved the conventional humiliation of making an apology for presenting a study of Indian Finance or Economics. But it will, on the other hand, be necessary, I fear, for an equally long period, for them to tender an apology for the shortcomings of their respective investigations. Even when the treatment of a subject is analytical, a good analytical study often requires an historical setting. Unfortunately no spade-work has been done in the field of Indian Finance. Consequently the difficulties which beset a pioneer in that field are immense. There is occasionally the difficulty owing to the antecedents of some point not having been quite completely elucidated. Often there is the apprehension of some error having crept in, and, when there is hardly anyone to save the student from it, there is nothing but to smart under a sense of irritating affliction. Not very seldom does it happen that a pioneer student is jubilant over his find of material bearing on his subject, but it is not without a long and wearisome search that he is able to sift the grain from the chaff. Again, sources sometimes prove false guides, so that a perusal of them only ends in a considerable waste of time and energy.

Precisely these have been the difficulties besetting the present task. There are no books to prepare the student for his work and hardly any savant to lighten his labour or set him on the proper track. Notwithstanding such odds, an attempt is made to make this study thorough without being too detailed. This has rendered the undertaking quite a laborious one. But I do not wish to speak of the labour that is involved, nor do I wish to astonish the reader with what might appear to be a formidable list of books and documents consulted in the preparation of this monograph. What I am anxious to speak of are its shortcomings. There are indeed many of them which a well-versed critic may spot out. It is my hope that they are not of such a character as seriously to impair the value which this monograph may otherwise be said to possess. My regrets are with regard to only a few of them. I have specified a date as to when Local Decentralization of Finance commenced in India; but I feel that that date may not be the earliest and that there may be a date earlier than that one given by me. I wish I had settled that point finally. But that would have been a task analogous to that of searching for a needle in a haystack, and it is doubtful whether the value of that result would have been commensurate with that labour. Besides, although I am not confident of my date, my feeling is that later researches may after all confirm my statement. Another matter which I have not dealt with, but which I would have liked to have dealt with, was the inter-relation of Provincial and Local Finance. This l had originally planned to do, but left pursuing it because I found that the chief subject I was dealing with, namely, the Provincial Decentralization of Imperial Finance, began to be overlaid by facts and arguments not germane to that topic. These shortcomings will, however, be removed by a supplementary monograph on Local Finance in British India, which is well under way and which I hope to publish before long. Occasional repetitions may also be pointed out as a defect of this monograph. That they should be avoided is all very well. But where economy in the words of explanation are likely to obscure, repetitions such as are unavoidable must be justified, for the interests of clarification should always outweigh the tedium they involve.

I cannot conclude this preface without thanking Mr. Robinson, the Financial Secretary at the India Office, for many valuable suggestions and for the loan of many important documents bearing on the subject. I am also thankful to Prof. Cannan, of the University of London, who has read the rough draft of a small part of the manuscript. My debt to Prof. Seligman, my teacher at Columbia University, is of course immense : for from him I learned my first lessons in the theory of Public Finance. I am obliged to my friend Mr. C. S. Deole for assistance afforded in the dreary task of reading the proofs.

●●

FOREWORD

The problem discussed by Mr. Ambedkar in his excellent dissertation is one that is arousing a growing interest in all parts of the world. From the very beginning we find fiscal burdens imosed by both central and local governments. As soon as there was a political organization, the conduct of war on the one hand and the provision of local protection and convenience on the other called for expenditures on the part of both state and local authorities. It was only at a later period that there was interpolated between the local and the central political organizations the intermediate form which Mr. Ambedkar calls the provincial government. The names applied to these various classes of expenditure differ with the authorities themselves. In India we speak of local, provincial, and imperial expenditure; in Germany, of local, state, and imperial expenditure; in the United States and Switzerland, of local, state, and federal expenditure; in Australia, of local, state, and commonwealth expenditure; in South Africa and Canada, of local, provincial, and federal expenditure; and in France, of local, departmental, and general expenditure. In some cases, as in the British Empire, there is being developed a still more comprehensive class of expenditures, borne by the empire at large.

The character and importance of these various classes of expenditure and the relations between them are undergoing a continual change, due to an alteration in the functions of government. This is itself largely due to a change in the general economic conditions, resulting in a gradual modification either of political structure or of administrative activity. In some countries, as in Canada, Argentine and Brazil, the provinces are really a creation of the central government; in other countries, as in the United States, Germany, and Switzerland, the federal government is the creation of the originally sovereign states. In some countries the intermediate (provincial or state) government is suffering a loss of importance as compared with the local or central governments; in other countries, the reverse is true.

With the increasing pressure of taxation and the development under modern democracies of augmented governmental functions, the problem of the equitable distribution of burden among these various forms of government is becoming more or less acute. What Mr. Ambedkar calls assignments, assigned revenue, and share revenue, is symptomatic of the choice of methods in all countries. One of three fundamental plans must be pursued. Either the central or the provincial government may be maintained by the other, according to the relative degree of strength : in former times, in the United States, and in Germany the states were supposed to support the central government, either wholly or in large measure; in modern times, in Canada and Australia, the reverse is true. Or, secondly, distinct revenues may be allocated to the separate governments : until recently the federal government in the United States, Germany, and Switzerland was supported primarily by indirect taxes; the state governments by direct taxes. Or, thirdly, the revenues may be collected by one government and a portion of the proceeds allotted to the other : there are many instances of a state or provincial tax being shared with the federal government, and still more examples of a federal or central tax being shared with the state or provincial government. In the United States at present the proper disposition of the inheritance tax as between state and federal government is fast becoming a burning question; in Germany the fiscal relations of state and federal government are in the forefront of political discussion.

The value of Mr. Ambedkar's contribution to this discussion lies in the objective recitation of the facts and the impartial analysis of the interesting development that has taken place in his native country. The lessons are applicable to other countries as well; nowhere, to my knowledge, has such a detailed study of the underlying principles been made.

It is true that only half of the picture is presented. For the situation has everywhere been complicated by the entrance of the local authorities into the field; and by their claims to fiscal consideration as compared with both state (provincial) and general (federal) demands. In the United States, for instance, the now widely debated problem of financing the schools is largely dependent for its solution on the proper answer to be given to the question of fiscal interrelations. To this question Mr. Ambedkar proposes to devote himself in a subsequent study. If he succeeds in illumining that situation as successfully as he here deals with the initial problem, he will lay us all under still deeper obligations.

EDWIN R. A. SELIGMAN

COLUMBIA UNIVERSITY, NEW YORK,
October, 1924

CONTENTS

Blank

INTRODUCTION

DEFINITION AND OUTLINE OF THE SUBJECT

A student of Indian Finance has two chief sources of information and guidance open to him. One is the Annual Budget Statement, and the other is the annual volume of Finance and Revenue Accounts. Though separately issued, the two are really companion volumes inasmuch as the financial Statement forms, so to speak, an exhaustive explanatory memorandum of the annual financial transactions, the details of which are recorded in the volume of Finance and Revenue Accounts.

Helpful as these sources are, they are not without their puzzles. A reference to the latest volume of Finance and Revenue Accounts will show that the accounts therein are classified under four different categories :—(1) Imperial, (2) Provincial, (3) Incorporated Local, and (4) Excluded Local. But this is by no means uniformly so. For instance, a volume of the same series before 1870 will not be found to contain the accounts called "Provincial", nor will the accounts styled "Local" be found in any volume prior to 1863. Similarly, any volume of the Financial Statements before 1870 will be found to divide the financial transactions covered therein into—Imperial and Local only. But a volume of the same series after 1908 curiously enough groups the accounts not under Imperial and Local but under (1) Imperial, and (2) Provincial, while the financial Statements after 1921 cover only the Imperial Transactions. Nothing is more confusing to a beginner than the entrance of the new, and the exit of the old, categories of accounts.[1] The

[1] It is surprising that the category of accounts, called "Excluded Local," which is to be found in the volume of Finance and Revenue Accounts, never appears in the Financial Statement. The author has not been able to trace the reason for its exclusion. In the *Madras Manual* (Vol. I, Chapter V, pp. 467-9) it is argued that the ground for the exclusion is technical and consists in the circumstance that the Excluded Funds are not collected by the ordinary revenue collecting agency of the Central Government and are not subject to its interference. Another technical ground may also be found in a ruling given in the third edition of the Civil Account Code (p. 137), according to which Funds were called Excluded, i.e. from the Financial Statement, because they were not required to be lodged in the Government Treasury. But a ruling on the same point given in the seventh and latest edition (p. 122) of the same seems to imply that every public fund must of necessity be lodged in a Government Treasury. The more probable explanation is that given in the *Moral and Material Progress Report* for 1882-3 (Part I, p. 107), where it is said that these funds have no place in General Finance because they "consist chiefly of special trusts and endowments."

natural question that he will ask is, how did these different categories evolve, and how are they related to one another ?

In the present study an endeavour is made to explain the rise and growth of one of them, namely, the "Provincial." But in order that there may be no difficulty in following the argument it is deemed advisable to preface this study with an outline defining its subject-matter and indicating the interrelations of the parts into which it is divided. To facilitate a thorough understanding of the subject the study is divided into four parts, *each* one dealing with the Origin, Development and Organization of Provincial Finance and the final form in which it was cast by the constitutional changes of 1919. In Part I a somewhat thorny, untrodden and yet necessary ground has been covered in order to give a complete idea of the origin of Provincial Finance. While due homage is paid to the adage which requires students of the present to study the past, nothing more than the past of the present has been dealt with. In Chapter I, Part I, an attempt is made to present a picture of the system of Finance as it existed before the inauguration of the Provincial Finance and to state the causes that called for a change in its organization. In Chapter II a rival system of Finance proposed during the period of reconstruction is brought to light and shown why it failed of general acceptance. Chapter III is devoted to the discussion of a plan which was a compromise between the existing system and its rival, and the circumstances which forced its reception.

Having explained the Origin in Part I, the Development of Provincial Finance is made the subject of Part II. How far the arrangement followed in Part I is helpful must in the absence of anything to compare with it be left to the opinion of the reader. In regard to Part II, however, it is to be noted that the arrangement is different from what is adopted in the only fragmentary sketch published on the subject of Provincial Finance in 1887 by the late Justice Ranade. As will be seen from a perusal of Part II, one of the features of Provincial Finance was that the revenues and charges incorporated into the Provincial Budgets were revised every fifth year. Justice Ranade in his pamphlet, which simply covers the ground traversed in Part II of this study, and that too up to 1882 only, has taken this feature as a norm by which to mark off the different stages in the growth of Provincial Finance from one to another. Consequently, each quinquennial period to him becomes a stage, and in his hands the history of Provincial Finance falls into as many stages as the quinquenniums into which it can be divided. It may, however, be submitted that if every revision had changed the fundamentals of Provincial Finance, such an arrangement would not have been illogical. But as a matter of fact, Provincial Finance did not change its hue at every revision. What the revisions did was to temper the wind to the shorn lamb. If the history of the development of Provincial Finance is to be divided into stages according to the changes in the fundamental basis thereof, then emphasis has to be laid on features altogether different in character. Writers on the theory of Public Finance seem to conceive the subject as though it were primarily a matter of equity in taxation and economy in expenditure. But to a Chancellor of the Exchequer finance is eminently practical with a problem to solve, namely, how to bring about an equilibrium in the Budget. If we scan the history of Provincial Finance in British India with a view to discover the method of meeting the problem of equilibrium in Provincial Budgets and the changes introduced in it from time to time, we shall find that Provincial Finance has evolved through three distinct stages, each with its own mode of supply, namely, Assignments, Assigned Revenues and Shared Revenues. Consequently, instead of following the mechanical plan of Justice Ranade, it is believed to be more logical and instructive to divide the stages in the growth of Provincial finance according to the method of supply to the Provincial Governments adopted by the Government of India. Consequently, Part II, which deals with the Development of Provincial Finance, is divided into three Chapters : (1) Budget by Assignment, (2) Budget by Assigned Revenues, and (3) Budget by Shared Revenues.

This discussion of the Origin and Development of Provincial Finance is followed in Part III by an examination of its Organization. Chapter VII in Part III is devoted to the analysis of the hitherto neglected rules of limitations on the financial powers of Provincial

Governments primarily to bring out the fact that Provincial Finance was not independent in its organization. The analysis of the true position of Provincial Finance is, however, reserved for Chapter VIII, in which the conclusion is fortified by a reference to the character of these limitations, that, notwithstanding the high-sounding appellation of Provincial Finance, there were neither provincial revenues nor provincial services as separate from Imperial revenues and Imperial services, so that instead of being federal in its organization the system remained essentially Imperial. Chapter IX discusses how far it was possible to enlarge the scope of Provincial Finance without jeopardy to the constitutional responsibilities of the Government of India under the old law.

Part IV is a discussion of the changes introduced into the mechanism of Provincial Finance by the Reforms Act of 1919. Chapter X of this Part is devoted to the analysis of the causes which led to these changes. In Chapter XI a full description of the changes effected by the new law is given, while Chapter XII forms a critique of the new regime.

In view of the fact that students of Indian Finance ordinarily content themselves with the phrase "Decentralization of finance," to indicate Provincial Finance, a word of explanation in justification of what may rather be called the too cumbersome title of this study. No student of Indian Finance, who is sufficiently acquainted with the branching off of the system in different directions, will fail to mark the inadequacy of the phrase Decentralization of Finance to mean Provincial Finance. If there were in the Indian system only the Provincial Decentralization there would have been no necessity to labour for a new title. As a matter of fact, the starting points of decentralization are by no means the same, and the systems evolved through it are quite different in character. For instance, the centre of decentralization and the systems evolved by the policy of decentralization brought into operation in 1855 were different from the centre and the systems evolved therefrom by the policy of decentralization initiated in 1870. Again, the centre which is gradually being decentralized since 1892, be it noted, is different from those affected by the decentralization of 1855 or 1870. To put it more clearly, the decentralization of 1855 was the decentralization of *Indian* Finance resulting in—

(I) the separation of Local from Imperial Finance.

The decentralization of 1870 was the decentralization of Imperial Finance resulting in—

(II) the separation of Provincial from Imperial Finance. And the decentralization commencing from 1882 is the decentralization of *Provincial* Finance resulting in—

(III) the separation of Local from Provincial Finance.

Obviously then, "Decentralization of finance" far from being indicative of Provincial Finance, is a general name for this variegated and multifarious process of decentralization described above, and it cannot but be confusing to use as a title to the study of one line of decentralization a phrase which can be generically applied to all the three lines of decentralization distinguished above. In order, therefore, that this study may not be taken to pertain to a line of decentralization other than the one it purports to investigate, it has been thought proper to designate it "The Evolution of Provincial Finance in British India" with a sub-title, "A Study in the Provincial Decentralization of Imperial Finance," where the words Provincial and Imperial must be read with the emphasis due to them. How careless the phraseology often is may be instanced by the fact that Justice Ranade's pamphlet referred to above is styled "Decentralization of Provincial Finance." Although it deals with the development of Provincial Finance, it is likely to be passed over by the student, for its title implies that its subject-matter must be the growth of Local Finance. If Justice Ranade had been conscious of the varieties of decentralization, he would have probably realized that the title of his pamphlet was false to its contents.

Blank

PART I

PROVINCIAL FINANCE : ITS ORIGIN

CHAPTER I

THE IMPERIAL SYSTEM

ITS GROWTH AND ITS BREAKDOWN

The Imperial system of Government in India dates from the year 1833.

Of the two chief motives which led Parliament to establish it, one was to replace the existing multiplicity in the systems of justice and police by a uniform system of the same, common as far as possible to the whole of India with its varieties classified and systematized. Under the existing system then prevailing such multiplicity was inevitable, for not only the civil and military government and the ordering and management of the revenues of each of the three Presidencies, Bengal,[1] Madras,[2] and Bombay,[3] were vested in their respective Governors in Council, but each Governor in Council was also empowered to make and issue such rules, ordinances and regulations for the good order and civil government of the territories he individually commanded, provided that they were just and reasonable and not repugnant to the laws of the British realm. To the codes of law promulgated by these authorities must be added the whole body of English Statute law introduced in India so far as it was applicable, by the charter of George I in 1726 and such other English Acts subsequent to that date as were expressly extended to particular parts of the country.

The work of administering such a diverse body of laws proved so embarrassing that it was the view of the supreme Court of Calcutta that

> "no one person can pronounce an opinion or form a judgment... upon any disputed right of persons, respecting which doubt and confusion may not be raised by those who may choose to call it in question; for very few of the public or persons

[1] 13 Geo. III, c. 63. s. 36.

[2] 39 and 40 Geo. Ill, c. 79, s. 11.

[3] 47 Geo. Ill, Sess. 2, c. 68, s. 3.

in office at home, not even the Law Officers, can be expected to have so comprehensive and clear a view of the Indian system of law, as to know readily and familiarly the bearings of each part of it on the rest."[1]

The other motive was to create a strong central government to deal effectively with the European settlers in the country. It is to be noted that if the native population suffered under the uncertainties of law, the British population lived under the most galling restrictions. The revelations of oppressions by Englishmen practised, in the early days of British Rule, contained in the report of the Secret Committee of the House of Commons appointed in 1771 to inquire into the affairs of the East India Company, were followed by very stringent laws governing the entry and residence of private British subjects in India. No British subject of European birth was allowed to reside in India beyond 10 miles from any one of the principal settlements without having previously obtained a special license from the Company or the Governor-General of India or the Governor of the principal settlement in question.[2] The Court of Directors of the Company, subject to revision of the Board of Control,[3] were empowered to refuse such licenses[4] and the Governments in India were strictly enjoined not to sanction the residence of British subjects on their own authorities except under special circumstances[5] and were authorized, in cases they deemed proper, to declare licenses otherwise valid as void.[6] Counterfeiting licenses[7] and unlicensed residence[8] were made crimes punishable with fine or imprisonment; and persons who were dismissed from, and who had resigned service, were declared guilty of illicit trade if they lingered beyond the 10-mile limit after their time had expired.[9] Unlicensed British subjects were made liable to be deported,[10] and such as were licensed were required to register themselves in the court of the district in which they resided.[11] Subjected as they were to the regulations of the Local Government[12] they were made amenable to justice in India as well as in Great Britain for all illegal acts done in British

[1] Quoted in Herbert Cowell's *The History of the Constitution of Courts and Legislative Authorities in India,* Calcutta.

[2] 33 Geo III, c. 52, s. 98.

[3] *Ibid, s.* 38.

[4] *Ibid,* s. 33.

[5] *Ibid.,* s. 37.

[6] 53 Geo. III, c. 155, s. 36.

[7] *Ibid.,* s. 120.

[8] 33 Geo. III, c. 52, s. 131.

[9] *Ibid.,* s. 134.

[10] 53 Geo III, c. 155, s. 104.

[11] *Ibid.,* s. 108.

[12] *Ibid.,* s. 35.

India,[1] or in Native States.[2] To render them impotent to cause complications, they were not allowed to lend money to or be concerned in raising any for native princes[3] or foreign companies or foreign European merchants. Similarly to protect the natives from their oppression they were forbiden to lend money to the latter at a rate of interest exceeding 12 per cent. per annum on penalty of forfeiting for every offence treble the value,[4] and they were placed under the jurisdiction of the Justices of the Peace in all cases involving assault or trespass[5] on, and small debts[6] due to, the natives of India. Moreover, every British subject of European birth was required to register in the office of his district the name, etc., of his native stewards, agents, and partners,[7] on penalty of being disentitled to recover or receive any sum or sums of money by reason of the joint concern or to compel an account thereof by any suit in law or equity in any court within the provinces.[8]

The ruling race had long chafed at these restrictions, under which it was placed, without much avail. They were evidently aimed at keeping out an element dangerous to the stability of the Indian Empire, but, as time went on, and as the Indian Empire was consolidated by successive victories over the native princes, there was raised against these restrictions such a storm of indignant criticism that even those who had acquiesced in their virtue were forced to admit that they had outlived their purpose. While the British Parliament could not help abiding by the sentiments of the time, it refused to disregard the consequences which it thought would inevitably attend upon the free ingress of British subjects of European birth under the then existing system of government. It realized that a harmonious treatment of the immigrants and an effective control over them was absolutely essential. Parliament was afraid that the different governments armed as they were with co-equal and independent powers of legislation and administration by exercising these powers with regard to the immigrants entering their respective territories, with different views and according to inconsistent principles might integrate the whole mass of them into a disaffected body difficult to be dealt with. Besides the

[1] 24 Geo, III, c. 25, s. 44.
[2] 26 Geo. Ill, c. 57, s. 67.
[3] 37 Geo. Ill, c. 142, s. 28.
[4] 13 Geo. Ill, c. 63, s. 30.
[5] 53 Geo. Ill, c. 155, s. 105.
[6] *'Ibid.,* s. 106.
[7] 21 Geo. ill, c. 70, s. 13.
[8] *Ibid.,* s. 16

necessity of a harmonious treatment based on uniform principles, the fears of Parliament that the ingress of British immigrants would result in the revival of oppression on the natives were not completely allayed. As its recrudescence was felt to be a likely event, Parliament desired to subject them to a strong and uniform central control, so that the offender in one jurisdiction might not be able to find an asylum in another. Thus, whether considered from the standpoint of bringing about uniformity of laws or securing stringency of control over elements subversive of order, the then existing system of government with its divided jurisdiction was ill-suited for the purpose held in view. An all-powerful Central Government legislating for and controlling the affairs of India as a whole was deemed to be the only solution for the emergency. Accordingly there came to be enacted in 1833 that

> "the Governor-General in Council (at Fort William in Bengal) shall have power to make laws and regulations for repealing, amending, or altering any laws or regulations, whatever, now in force or hereafter to be in force in the said territories or any part thereof, and to make laws and regulations for all persons, whether British or native, foreigners or others, and for all Courts of Justice, whether established by His Majesty's Charters or otherwise and the jurisdictions thereof, and for all places and every part of the said territory, and for all servants of the said Company within the dominions of princes and states in alliance with the said Company. . . . ;"[1]

A Central government was thus created by vesting the legislative power exclusively in the Governor-General of India in Council. But it could not have been all-powerful had the two Presidencies of Madras and Bombay remained as heretofore invested, by law, with the civil and military government of their respective territories. On the other hand, if Parliament had stopped short of divesting them, there would have ensued the possibility of a conflict between these governing authorities and the sole legislative authority newly created. Being responsible for peace, order and good government, the former could have refused to govern according to laws made by the latter, and all the gain expected to arise from the institution of a central and strong government would have been lost. To eliminate this element of weakness in the Indian polity

[1] Sec. 43 of 3 and 4 Will. IV, c. 85, an Act for effecting an arrangement with the East India Company, and for the better government of His Majesty's Indian territories.

newly established, Parliament proceeded to divest the presidencies of Bombay and Madras of the high status which they hitherto occupied as *responsible* governments, so that according to the new Constitution

> "......the Executive Government of each of the several Presidencies ...... (was to be) *administered* by (not vested in as heretofore) a Governor and three Councillors"[1]

While

> "......the Superintendence, Direction, and Control of the whole civil and military government of all the......territories and Revenues in India (was) vested in a Governor General and councillors styled the Governor-General of India in Council."[2]

Thus came to be established in India the Imperial system of government. It is true that long before its establishment the Government of Bengal[3] had the supreme power, not only of superintending and controlling the government and management of the Presidencies of Madras and Bombay in the matter of commencing hostilities, or declaring or making war against any Indian prince or power, or for negotiating or concluding any treaty of peace or other treaty with them, except in case of emergency, but it also possessed by a later enactment the power of superintendence in all such points as related to the collection or application of revenues, or to the forces employed, or to the civil or military government of the said presidencies.[4] But it must not be supposed, as is often done, that before 1833 the two Presidencies were in any real sense subordinate to Bengal in their domestic affairs. The fact that Madras and Bombay were required constantly and diligently to transmit to the Government of Bengal true and exact copies of all orders and resolutions and their acts in Council, and were enjoined to pay due obedience to the orders of the Government of Bengal, must not be construed to mean any subordination in their internal affairs. For, barring the extra territorial authority vested in the Government of Bengal, it must be borne in mind that,

[1] Sec. 43 of 3 and 4 Will. IV, c. 85, an Act for effecting an arrangement with the East India Company, and for the better government of His Majesty's Indian territories.

[2] *Ibid.,* s. 56. By sec. 57 power was given to reduce the number of councillors at the Presidencies or suspend them altogether, leaving the Executive Government at the Presidency to be carried on by a Governor alone. This power was exercised in 1833 by reducing the executive councillors at Bombay and Madras from three to two respectively.

[3] and 4 Will. IV, c. 85, s. 39

[4] 13 Geo. III, c. 52, s. 40.

equally with Bengal,[1] the Governments of Madras and Bombay were *vested each*[2] with the civil and military government and also with the ordering and management of all territorial acquisitions and their revenues. Along with the Government of Bengal they possessed as stated before co-equal and independent powers of legislation within their respective jurisdictions. A truer view therefore seems to be that they forwarded the copies of their proceedings to the Government of Bengal for information rather than for orders. At any rate, such seems to have been the view taken by the Government of Bengal itself, for, though it had the power to issue orders and compel obedience to them it had in practice confined its supervision and control "to pointing out an irregularity and requesting that it be not repeated." More than this was thought inadvisable[3] and it is doubtful[4] whether it would have been constitutional.

The Imperial system of Government was necessarily accompanied by the Imperial system of Finance. Before the inauguration of the Imperial system of Administration the several Presidencies were like separate clocks each with its own mainspring in itself. Each possessed the powers of sovereignty, such as the legislative, the penal, and the taxing powers. They were independent in their finance. Each was responsible for the maintenance of services essential for peace, order and good government within its jurisdiction and was free to find money by altering or levying taxation or borrowing on credit to meet its obligations. For their ways and means they often drew upon the resources of one another, not, however, because their exchequers were not distinct, but because they were parts of a common exchequer belonging to the East India Company. All this was changed by the Act of 1833, which vested the revenues and the government of the different territories in the Governor-General of India in Council. The revenues and the services became by law the revenues and the services of the Government of India. The provinces became the collecting and the spending agencies of the Government of India. They ceased to levy any new taxes or to collect the old ones

[1] 13 Geo. III, c. 63, s. 7.

[2] 33 Geo. III, c. 52, s. 24.

[3] Of. Min. on the Constitution of the Indian Government by the Governor-General, Lord William Bentinck, dated September 14, 1831. Also Memorandum *re* the same by the Secretary to the Government of Bengal accompanying the despatch of Lord Canning dated December 9, 1859, published in H. of C. Return 307 of 1861.

[4] Cf. the despatch of the Court of Directors to the Government of Bengal No. 44 dated December 10, 1834, *original* draft in the India Office Records.

in their own name. In like manner the services they administered became a charge of the Government of India, which distributed among the various provinces sums from the consolidated fund for the maintenance of the services. It was by law provided that without the previous sanction of the Government of India the provinces were not to spend the fund allowed to them in creating any new office or granting any salary, gratuity, or allowance.[1] The public debt was no longer a charge upon the revenues of any particular Presidency alone, nor did there remain any question of primary or secondary liability as between the revenues of the other Presidencies. All the provincial debts became the debts of the Government of India and were charged to the revenues of India as a whole. In short, the financial system which was roughly analogous to the system of separation of sources and contributions from the yield was changed into a system of aggregation of sources and distribution of the yield; for, as observed in a Government Resolution by virtue of the Act of 1833,

> "British India, though for the sake of convenience subdivided into Presidencies under separate locally controlled governments, (became) in reality one sole grand Power in dependence on Great Britain, having undivided interests, a single exchequer, and controlled in all essential and general principles by one Government—the Governor-General in Council......The entire resources of India (were) applicable to one purpose only, the discharge of its engagements and those connected with its management in England, and to whatever section of British India funds (were) wanting, funds (were) supplied, as a matter of course, without any reference to the particular source from which they were derived."[2]

So comprehensive did the system of Imperial Finance become in time that when in 1858 the Crown took over from the Company the government of India it was found that

> "no province had any separate power of legislation, any separate financial resources, or practically any power of creating or modifying any appointments in the public service; and the references to the Government of India which this last restriction involved gave that Government the opportunity of interference with all the details of provincial administration."[3]

[1] 3 and 4 Will. IV, c. 85, s. 59.

[2] Government of India, Financial Department Resolution, dated November 22, 1843.

[3] *Report of the Royal Commission on Decentralization in British India,* p. 24.

Whatever may have been the merits of the Imperial system of Government from the military, political, legislative, or administrative points of view, it is a melancholy fact that as a system of finance it proved unequal to the strain imposed upon it. From its very start it suffered from the fatal disease of financial inadequacy, and it was only occasionally that the efforts of the Finance Ministers were successful in restoring an equilibrium and staving off the hour of crisis. How chronic the deficits were may be seen from the following figures :—[1]

INSUFFICIENCY OF IMPERIAL FINANCES

Year	Surplus	Deficit	Year	Surplus	Deficit
	£	£		£	£
1834-35	...	194,477	1846-47	...	971,322
35-36	1,441,513	...	47-48	...	1,911,986
36-37	1,248,224	...	48-49	...	1,473,225
37-38	780,318	...	49-50	354,187	...
38-39	...	381,787	50-51	415,443	...
39-40	...	2,138,713	51-52	531,265	...
40-41	...	1,754,852	52-53	424,257	...
41-42	...	1,771,603	53-54	...	2,044,117
42-43	...	1,346,011	54-55	...	1,707,364
43-44	...	1,440,259	55-56	...	972,791
44-45	...	743,893	56-57	...	143,597
45-46	...	1,496,865	57-58	...	7,864,222

Anyone who ponders upon this pitiable story of Indian Finance as revealed by these deficits can hardly fail to wonder with Disraeli who remarked in the House of Commons that—

> "able as has ever been the administration of India, considerable and distinguished as have been the men whom that administration had produced, and numerous as have been the great Captains, the clever diplomatists, and able administrators of large districts with whom the Government has abounded, the v state of the finances of India has always been involved in perplexity, and India that has produced so many great men, seems never to have produced a Chancellor of the Exchequer."[2]

[1] From the Financial Statement of British India for 1860-1 by Mr. Wilson. H. of C Return 33 of 1860, p. 100.

[2] *Sir Charles Woods' Administration,* by West, pp. 65-6.

The causes of this collapse, however, are not far to seek. The inadequacy of Indian Finances is mainly to be ascribed to an unsound fiscal policy. The policy was unsound for various reasons. In matters of state economy it is usual to argue that the expenditure to be incurred should determine the magnitude of revenue to be raised. But experience has shown that this stock maxim has proved ruinous wherever its limitations have failed to receive their due weight. It cannot be too often said that the growing expenditure of the State can only be sustained from the growing wealth of the society. Nor can it be too strongly emphasized that the test of sound finance does not merely consist in being capable of raising the requisite amount of revenue. It must be remembered that the *mode* of raising the revenue is an aspect of the question which is fraught with tremendous consequences for the stability and productivity of the nation. It is too obvious to be denied that a tax system by its unequal incidence may cause social upheavals, just as by its unwise incidence on trade and industry it may impoverish society by setting out of gear its economic mechanism and technique and eventually beggar the State by impairing the productive powers of society. Wisdom therefore requires that those who are entrusted with the financial management of the State should look beyond the more immediate object of raising and spending of money, for the "hows" of finance are very important, and can be seldom neglected in practice with impunity. The wealth of society is the only patrimony on which the State can draw, and the State that damages it cannot but end in damning itself. History abounds with instances of States wrecked by the unwise neglect of these evident truths, but if an illustration be wanted in further proof thereof, the system of Imperial Finance established in India is matchless for the purpose.

The land tax was the heaviest impost of the Imperial revenue system in operation. The underlying doctrine of the tax in India has been that it is of the nature of rent paid by the cultivator to the State in virtue of the theory that the land in India has from immemorial times been regarded as the property owned by the State. The cultivator is not the proprietor, but is the occupier of the land. The land is let to him and the State is therefore justified in claiming the whole of the economic rent arising from the land. On this assumption the land tax has been imposed irrespective of the question of necessity or justice.

Besides this legal fiction of State landlordism there was also another economic principle which was taken to be the justification for the enhancement of the land revenue. There is reason to believe that the Physiocratic doctrine of *produit net* had its influence in the management and fixing of the land tax in India. We find high officials in India arguing in the early stages of the revenue management that "whether or not the principle of the French Economists of laying all the taxes on the land be......erroneous or otherwise, it is certainly conformable to the prevalent system in India; nor is that theory supported by the French alone, but by respectable authorities in England, who contend that all taxes fall ultimately on the products of the soil, and that in advancing a different doctrine the eminent author of *The Wealth of Nations* is at variance with himself, inasmuch as his previous data lead to that conclusion."[1] Whatever may have been the reasons for augmenting the land tax, few can deny that a heavy consolidated impost on the first exertions of any species of industry absorbing the whole or nearly the whole of its profits in ruinous and impolitic. It becomes an effectual bar to the creation of that produce on which the future exertions might be profitably employed and through the medium of which individual wealth and public revenue may be increased to an almost inconceivable extent. A land tax of this nature was sure to blast the very production of that wealth which industry would have otherwise brought into being. The land tax was so heavy that the system of tax prevailing in India might well have been called a near approach to the single tax system.[2]

[1] For this remarkable controversy, which has escaped even the comprehensive eye of Baden Powell, see House of Commons paper 306 of 1812-13.

[2] The ratio of the land revenue to the total revenues of India was as given below :—

Year	Ratio	Year	Ratio	Year	Ratio
1792-3 to 1796-7	50.33	1817-8 to 1821-2	66.17	1842-3 to 1846-7	55.85
1797-8- to 1801-2	42.02	1822-3 to 1826-7	61.83	1847-8 to 1851-2	56.06
1802-3 to 1806-7	31.99	1827-8 to 1831-2	60.90	1852-3 to 1855-6	55.40
1807-8 to 1811-2	31.68	1832-3 to 1836-7	57.00	Average, for 64 years	54.07
1812-3 to 1816-7	52.33	1837-8 to 1841-2	59.05		

While the land tax prevented the prosperity of the agricultural industry the customs taxes hampered the manufactures of the country. There were internal customs and external customs, and both were equally injurious to trade and industry. The internal customs[1] were made up of transit and town duties. For the purposes of transit duties the country was artificially divided into a number of small customs areas. Goods may be manufactured and consumed *ad libitum* within each customs area, but the moment they left their own division they became liable to duty. The injurious effects of this regulation, though concealed, were none the less real. The transit duties held up trade, which in its turn reacted adversely on the manufacturers of the country. Adam Smith has told us how the growth of industry depends upon the extent of the market. Here for the purposes of the transit duties the whole country was cut up into small bits after the manner of squares on a chess board. What wonder is there if trade, and its handmaid, industry, both languished to a serious extent. The adverse effect on the transit duties was also felt in another way. In every country somewhat industrially advanced there is not only a social division of labour, but there is also a territorial division of labour, otherwise called localization of industry. Evidence is not wanting to show that the localization of industry formed a prominent feature of Indian economy.[2] Under it each locality in India specialized in a particular art or industry; for instance, cotton was grown in one locality, woven in another, and bleached in a third place. But it often happened that these localities were situated in different customs areas, and a raw good might have had to pay the transit duty many a time before it reached its finished stage. To avoid this each locality was obliged to waste its energies along unprofitable lines in order to escape the transit duties.

The town duties, which formed a part of the internal customs, also worked in their effects towards de-urbanization. Commercial entrepots are admittedly vast instruments of the trade of a country. The opportunity of ready purchase and sale of almost every kind of commodity in any quantity, accumulated capital, extended

[1] Mr. Travelyan, who closely studied the system, was so much horrified by its injurious effects that he wrote “although we now have ocular demonstration of its existence, yet when it has once been abolished the world will find it difficult to believe that such a system could have been tolerated by us for the better part of a century.”—*System of Transit and Town Duties in the Bengal Presidency,* p. 6.

[2] *See* M. Martin’s *Eastern India,* 3 vols.

credit, general information all meet here as in a centre. They support, encourage and give lift to commerce and to the trade of a country. But the direct effect of the town duty was to distract and drive away trade, for under the system every article which was subject to it had, after the payment of transit duty, to pay on entry, in the town, the town duty and, if it underwent any change of form by manufacture within the town of entry, it could not have been furnished to any neighbouring place without a second impost being paid upon it under the transit duty system, enhanced in proportion to the increase of value it might have acquired from the labour and the skill bestowed upon it, The consequence was that towns dwindled both in trade and industry owing to the reason that merchants ceased to frequent them and that no manufactures of articles subject to the transit duty were capable of being established in them except for their own supply.

It was in this depressed condition that the Indian industries were called upon to meet foreign competitors. But the external customs cannot be said to have protected, much less fostered them. As a rule commercial tariffs are based upon what is called commodity competition. The import tariffs are designed to check by means of higher duties the importation of such foreign commodities as are likely to interfere in the successful manufacture of the same commodities at home and the export tariffs are framed principally with a view to give bounties to such of the home commodities as have a chance of securing a foothold in foreign markets. But the theory of external customs in India had no connection with the theory of commodity competition. In comparison with the policy actually adopted even a protectionist would have preferred to see trade left perfectly free, for the tariff was based on political rather than economic considerations. The Indian Import Tariff varied not with the nature of the imports but with the origin of the imports and the bottom on which they were shipped. Being political in character it was preferential in design and in its framework. It is to be regretted all the more that the preference involved an unmitigated loss to the people and to the government. It was excusable to have admitted into India goods of English origin and shipped on English bottoms at a rate half of what goods of foreign origin and shipped on foreign bottoms were charged with. But nothing can extenuate the sacrifice imposed upon the Indian industries by letting in British goods at lower rates than what the Indian goods had to pay under the internal customs; and this was done when, be it remembered, England was prohibiting by high tariff the entry of India-made goods and India-built ships ! But while the import tariff made it easy for the foreigners to compete successfully with Indian manufactures burdened as they heavily were by the weight of the internal customs, Indian goods found it considerably difficult to compete in foreign markets under the incubus of export duties which formed one of the most lamentable features of the Indian tariff and which endured long into the nineteenth century.[1] Thus the customs laws internal and external blockaded trade and smothered industry. The comparatively paltry revenues derived from them is the best proof of their ruinous effects.[2]

When these resources failed the Government resorted to some very questionable means of raising revenue.

On an impartial survey of the revenue system as prevailed under the Imperial regime one is constrained to say that justice in taxation was conspicuous by its absence. It was a cruel satire, or at best an idle maxim, for the lancet was directed not where the blood was thickest but to that part of the body politic which on account of its weakness and poverty most meekly bore the pang. The landlords who passed their lives in conspicuous consumption and vicarious leisure on the earnings of the poor tenants, or the

[1] It is difficult to cite references to every statement made above. The tariff history of India is yet unwritten, but ample evidence bearing on the point will be found in the Parliamentary Committee on Trade in 1821 and the Evidence submitted to the Committees appointed by Parliament to investigate into the affairs of the East India Company in 1813 and 1853. Particular attention is invited to the Report and Evidence of the Committee on East India Produce, 1846.

[2] The following table gives the ratio of the Customs Revenue to the total revenue :—

Year	Ratio	Year	Ratio	Year	Ratio
1792-3 to 1796-7	2.38	1817-8 to 1821-2	8.32	1842-3 to 1846-7	6.02
1797-8 to 1801-2	3.10	1822-3 to 1826-7	7.58	1847-8 to 1851-2	5.40
1802-3 to 1806-7[J]	4.16	1827-8 to 1831-2	8.12	1852-3 to 1855-6	5.52
1807-8 to 1811-12	5.04	1832-3 to 1836-7	7.19	Average for 64 years	6.22
1812-13 to 1816-17	6.68	1837-8 to 1841-2	6.76		

Hendricks, *op. cit.,* p. 286.

many European civil servants who fattened themselves on pay and pickings, were supremely exempted from any contribution towards the maintenance of the Government whose main activities were directed towards the maintenance of pomp and privilege. On the other hand, the salt tax[1] and the Moturpha,[2] and other oppressive taxes[3] continued to harass the industrious poor. It is indeed true that many petty and vexatious taxes prevalent under the native rule were abolished; there is, however, enough evidence to show that the revenue thus lost was made up by enhancing those that were continued to be levied, particularly the land tax. The latter charge has always been officially denied,[4] but none the less it remains true that the land tax has been consolidated and increased concurrently with, if not consequently upon,

[1] The percentage ratio of the salt revenue to the total revenue at different times was as follows :—

Year	Ratio	Year	Ratio	Year	Ratio
1792-3 to 1796-7	14.13	1817-8 to 1821-2	11.25	1842-3 to 1846-7	11.65
1797-8 to 1801-2	12.10	1822-3 to 1826-7	11.87	1847-8 to 1851-2	9.14
1802-3 to 1806-7	11.09	1827-8 to 1831-2	12.03	1852-3 to 1855-6	9.17
1807-8 to 1811-2	11.14	1832-3 to 1836-7	9.72	Average, for 64) years	11.07
1812-3 to 1816-7	10.92	1837-8 to 1841-2	12.37		

Hendricks, *op. cit., p.* 283.

[2] In a petition drawn up by the Madras Native Association to the House of Commons in 1858 it was described as "a tax on trades and occupations embracing weavers, carpenters, all workers in metals, all salesmen whether possessing shops which are also taxed separately, or vending by the road-side, etc., some paying imposts on their tools, others for permission to sell, extending to the most trifling articles of trade, and the cheapest tools the mechanics can employ, the cost of which is frequently exceeded six times over by the Moturpha, under which the use of them is permitted." Quoted by Raghuvaiyangar in his *Progress of the Madras Presidency,* 1893, p. 113.

[3] Dr. Francis Buchanan in his *Journey from Madras,* Vol. II, notes that" at Sati-Mangalam in Coimbatore, South India, a new stamp duty of $\frac{3}{4} + \frac{1}{3}$ of a Vir-Raya Fanam, or about $5\frac{1}{4}d$, has been levied on every two pieces of fine cloth; and of $\frac{3+\frac{3}{4}}{8}$ of a Vir-Raya Fanam, or of about $2\frac{3}{4}$, on every two pieces of coarse cloth. The weavers in consequence have given up work, and gone in a body to the Collector, to represent their case. The tax is levied in place of a duty of 4 or 5 Fanams a year, that was formerly levied on every loom; by the weavers it is considered as heavier"—pp. 240-1. He also notes "at Dodara Pallyam which contains 50 houses of weavers, the weavers are quite clamorous about the new stamp duty; which, they say, will for every loom cost them 20 Fanams in place of 5 which they formerly paid." *Ibid.,* p. 242.

[4] Parliamentary papers, Vol. V of 1831, Minutes of Evidence on the East India Company's affairs, Q. 3864-66.

the abolition of such other taxes as being raised from the poor cost the Government more than their yield.

Under the injurious revenue system described above, the taxing capacity of the people decayed so that notwithstanding its numerous resources[1] from which it derived its revenues the Imperial Government was unable to make both ends meet. It ought to serve as an object lesson to all financiers to show that when their revenue laws are harmful to the resources of the people they must blame none but themselves for their empty treasury.

[1] The following is a conspectus of the taxes levied :—

Source of Revenue	Amount o Revenue raised in Millions	Period		Locality and Date of Commencement
		No. of Years	Dates	
Land Revenue	662.308	64	1792-3 to 1855-6	Throughout the period in Bengal, Bombay and Madras since 1834-5 in N.W.P. and 1849-50 in the Punjab.
Sekyer & Abkary	9.729	20	1836-7 to 1855-6	Throughout the period in Bengal, N.W.P., Madras and Bombay, and since 1849-50 in Punjab.
Excise	4.987	,,	,,	Bengal accounts exclusively.
Moturpha	6.455	,,	,,	Madras accounts exclusively.
Salt	135.532	64	1792-3 to 1855-6	Bengal since 1792, Madras 1822, Bombay 1822, N.W.P. 1839.
Opium	106.707	,,	,,	Bengal since 1792, Bombay since 1820.
Post Office	8.888	,,	,,	Bengal and Madras since 1792, Bombay since 1813, Punjab 1849, N.W.P. 1835.
Stamps	16.697	59	1797-8 to 1855-6	Bengal from 1797, Madras from 1813, Bombay from 1819, N.W.P. from 1834, Punjab from 1849.
Customs Duties *Internal :* 1. Transit 2. Town *External :* 1. Import 2. Export	76.179	64	1792-3 to 1855-6	Bengal, Madras and Bombay from 1792-3, N.W.P. from 1834-5, Punjab since 1849-50.
Mint Revenue	3.221	,,	,,	Bengal from 1792, Madras and Bombay from 1813.
Tobacco	1.437	18	1836-7 to 1853-4	Madras 1836 on.
Miscel-laneous	194.777	64	1792-3 to 1855-6	Same as under land revenue.

Was the money raised by such injurious taxes without reference to their effect on the productive powers of the country spent on such public utilities as were calculated to enrich and elevate the economic life of the tax-paying population? A glance at the following table giving the distribution of the expenditure by decades on the different services will show how the money was spent :—

Distribution of the Expenditure*

Percentage Ratio of Total Expenditure on	In the Year					
	1809-10	1819-20	1829-30	1839-40	1849-50	1857
Military ...	58.877	64.290	53.754	57.721	51.662	45.55
Interest on debt ...	18.010	12.805	12.124	9.756	10.512	7.19
Civil and Political ...	7.221	8.900	9.575	12.296	8.902	9.62
Judicial ...	7.525	6.800	7.107	9.565	7.180	
Provincial Police ...	1.991	2.093	1.535	2.062	2.062	9.38
Buildings, Fortifications, etc.	1.639	1.756	2.810	1.428	1.661	...

* "Past, Present and Prospective Financial Condition of British India," by Colonel Sykes, *Journal of the Royal Statistical Society,* 1859, Vol. XXII, p. 457.

Prominent among this array of figures are those on the military expenditure and though they have dwindled in years they have invariably consumed more than one half of the total revenues of the country. But the stupendous figures opposite military do not represent the true burden of that expenditure. To them must be added the figures for the interest charge on debt, for the debt incurred was entirely a war debt. India was all throughout this period a battle-ground between the Country Powers and the East India Company. The two Mahratta Wars, the three Mysore Wars, the two Burmese Wars, the two Afghan Wars, and the Carnatic Wars, not to speak of the numerous other minor engagements, were fought in the interests of adding India to the dominions of the Company and of the Crown. While Parliament claimed that the dominions of the East India Company were the dominions of the Crown it must be borne in mind that it refused to pay a farthing of the purchase money. On the other hand, the entire cost of these wars was borne by India as so much dead weight on her scanty resources. The charges shown separately under buildings and fortifications must also be included in the military expenditure, to which category they really belonged. On making these needful additions we find the unparalled fact of a country wasting between 52 to 80 per cent. of its precious little money on war services. It may, perhaps be argued on the other hand that much of the military expenditure, large though it was, went back into the coffers of the Indians themselves as they formed the bulk of the forces employed in the country. The Indians of course, formed a very large portion of the military,[1] and if the scales of salaries fixed for the European and native forces were equal the result would have been favourable to the natives of the country, though it cannot be said to have excused that huge military expenditure. But the scales of salaries for the Europeans and natives were so grossly unequal[2] that one European drew on an average more than the salaries of four natives put together. So this expenditure, whether from the standpoint of public utility or private employment, did not benefit the population which contributed to the revenues of the State.

[1] This may be seen from the following figures :—

STRENGTH OF THE INDIAN ARMY BEFORE THE MUTINY*

	European	Native	Total
Artillery ...	6,419	9,138	15,577
Sappers ...	110	3,043	3,153
Cavalry ...	3,456	30,533	32,989
Infantry ...	29,760	188,660	218,420
Total ...	38,745	231,374	270,119

*Report of Major-General Hancock on the Reorganization of the Indian Army, Parliamentary paper of the year 1859, p. 21.

[2] This is indicated by the following table :—

COST OF AN INFANTRY REGIMENT PER MONTH

EUROPEAN

	Details			Total		
Officers	Rs.	As.	Ps.	Rs.	As.	Ps.
37 Officers	14,734	14	3			
Staff and Establishment	4,515	12	4	21,779	2	7
Command and other allowances	2,528	8	0			
Men						
117N.CO.S.	2,289	4	5			
950 Privates	11,203	8	4			
Rations, clothing and other charges	12,506	11	3	25,999	8	0
Total				47,778	10	7

The civil and political charges which absorbed nearly 10 per cent. of the revenue can hardly be said to be recuperative in their effect. This part of the expenditure again was not shared by the native population which bore its burden. As a result of conquest the natives naturally came to occupy a secondary position; but the conquest had done more than merely degrade their status. It had engendered a certain sense of distrust for the natives in the minds of Englishmen. Conquered and distrusted the natives since the commencement of British rule had come to be excluded from the higher administrative posts of the country.[1] It was to remove this injustice that Parliament in the Act of 1833 provided

> "that no native of the said territories, nor any natural-born subject of His Majesty resident therein, shall, by reason only of his religion, place of birth, descent, colour or any of them be disabled from holding any place, office, or employment under the said Company" (sec. 87).

NATIVE

		Details			Total		
	Officers	Rs.	As.	Ps.	Rs.	As.	Ps.
26 Europeans	... ...	9,861	2	1			
20 Natives	... ...	940	0	0	13,527	8	7
Staff and Establishment	... ...	1,209	1	4			
Command and other allowances	...	1,517	5	*2*			
	Men						
140 N.C.O.s.	... ...	1,780	0	0			
1,000 Sepoys	... ...	7,000	0	0	9,606	14	0
Charges	... ...	826	14	0			
	Total				23,134	6	7

It is evident from this table that if we deduct the salary of 26 European officers and command and other allowances shown under the heading "Native" which amounts to Rs. 11,378 7. 3. we shall find that 1,104 Europeans drew Rs. 47,778 10. 7. while 1,160 natives drew only Rs. 11,755 15. 4.

[1] Before 1833 the very meagre scale on which they were employed is disclosed by the following figures :—

Native Civil Servants of the 1st Class attached to the Secretariat of the 3 Precidencies Receiving per Month Salaries of :—	Bengal		Madras		Bombay		Total	
	No.	Total Salary Drawn	No.	Total Salary Drawn	No.	Total Salary Drawn	No.	Total Salary Drawn
Rs. 500 and upwards	5	2,700	...	...	5	2,500		
Rs. 400 "	2	800	...	...	1	400		
Rs. 350 "	4	1,400	1	350	1	350		
Rs. 300 "	3	900	...	...	2	600		
Rs. 250 "	5	1,250	...	...	1	250	89	20,690
From Rs. 250 to 200	17	3,460	5	1,155	1	200		
From Rs, 200 to 150	10	1,590	4	682½	...	...		
From Rs. 100 to 150	5	550	5	525	5	330		
Below Rs. 100	6	470	1	87½	2	140		
Total	57	13,120	16	2,800	16	4,770		

But, as a matter of fact, till after the Mutiny not one of the natives was appointed to any office except such as they were eligible for before this Statute was passed, because the Court of Directors in interpreting it advised the Government of India at the very start that by this enactment

> "practically......no very marked difference of results will be occasioned. The distinction between the situations allotted to the convenanted service and all other situations of any official or public nature will remain generally as at present."[1]

The Judicial and police charges, which together absorbed something like 10 per cent. of the total revenue raised, can only be regarded as protective in their character. Thus the bulk of the money raised by injurious taxes was spent in unproductive ways. The agencies of war were cultivated in the name of peace, and they absorbed so much of the total funds that nothing practically was left for the agencies of progress. Education formed no part of the expenditure incurred and useful public works were lamentably few. Railways, canals for navigation or irrigation and other aids to the development of commerce and industry for a long time found no corner in the Imperial budget. For a total area of 837,000 square miles there were constructed a few miles of railways, 2,157 miles of land ways, 580 miles of waterways and 80 miles of telegraph. Or speaking in terms of money spent, we find that for the entire period of fifteen years from 1837-8 to 1851-2 the average expenditure of a productive character amounted only to £ 299,732

[1] Despatch to Bengal No. 44 dated December 10, 1834, para. 107.

*Report of the Civil Finance Committee on Native Establishment at the three Presidencies,—Bengal Financial Consultations dated April 13, 1830. India Office Records. The subordinate establishments of uncovenanted Christian and native servants attached to the several presidencies were divided by the Committee into four classes, (1) comprehending Head clerks, Registrars, Managers and their assistants, Examiners, Investors, etc., employed under the Secretaries in superintending and conducting the business of the office; (2) Current Business Writers, and permanent Copyists; (3) Sectioners or copyists paid by piece work, and (4) all inferior servants. The Committee found that

Para. 35. The salaries received by the Current Business Writers in Calcutta vary from Rs. 20 to Rs. 300 per mensem, an average for each individual Rs. 104; in Bombay they vary from Rs. 15 to 120, an average Rs. 48; at Madras it is an established rule that the average remuneration to servants of this description in the Secretariat at that Presidency is Rs. 27½ , which is distributed at various rates from 10½ to 87½, rupees, according to the claims of the individuals from length of service and utility......

Sectioners in the Secretariat office, Bengal, were paid at the rate of 750 words per rupee; while at the other two Presidencies it was about 1333 words for a rupee.

Para. 51. The present charge for servants attached to the Secretariat in Bengal is Rs. 1,142 per month; at Madras, including mochies (cobblers), Rs. 455; and at Bombay, Rs. 261. In Bengal there were 186 servants; in Madras 56; and in Bombay 42.

a year.[1] There is a principle well known to farmers that constant cropping without manuring ends in the exhaustion of the soil. It is, however, capable of wider application, and had it been observed in the State economy of India the taxing capacity of the country would have grown to the benefit of the treasury and the people. Unfortunately it was lost upon the financiers of India to the detriment of both.

But if the chance of augmenting the resources by judicious taxes and productive expenditure to cover the chronic deficits was forfeited, there was at least the way open for economy in expenditure. As might be supposed, a strong Central Government of the kind established in 1833 was capable of effecting economy wherever possible. As a matter of fact, the centralization was of the weakest kind. *De jure* there was an Imperial system of administration, but the *de facto* administration was conducted as though the primary units of executive government were the Provinces and that the Government of India was only a co-ordinating authority. This was obvious from a variety of circumstances. Legislation was, it is true, centred in the Government of India; none the less the laws that were passed by the Government of India were passed *for* the different provinces as though the initiative in legislation still lay in the Provinces and that the Government of India was only a sanctioning authority. Each Province had its own customs, internal as well as external, a survival of their sovereign status. Each Province continued to have its own Army. Notwithstanding centralization, the account system still remained provincial, sustaining the sense of their financial independence. The work of administration and collection of revenue being still conducted by them, the provinces behaved as though they were the lawful authorities charged with the responsibilities of Government. This spirit of independence bred insubordination, and some of the Provinces, particularly Bombay and Madras, endeavoured to resist the attempts of the Government of India to tax the people under their jurisdiction when the cost of the mutiny compelled it to levy fresh burdens. The point to be borne in mind is that the Act of 1833 made an unfortunate divorce between the legal and administrative responsibility. The Imperial Government were responsible in law but did not administer the country. The Provincial

1 *Statistical paper relative to British India.* Edited by Thornton, 1853.

Governments administered the country but had no responsibility in law. This divorce had a fatal effect on the economy in the finances of the country. As was inevitable extravagance in expenditure had become the rule in practice and it was inherent in the Imperial system itself. Economy is begotten of responsibility, and responsibility is obtained where a government has to *find* the resources to meet the charges it desires to incur. Prior to the inauguration of the Imperial system the Provincial Government had the obligation to raise money for the charges included in their budgets. Consequently they had to be economical. But under the Imperial system, while the budgets for the various services were prepared by the provincial authorities, the responsibility for finding the ways and means rested on the Government of India. Formerly they knew the limits of the purse they had to draw upon, but under the Imperial system they

> "had no means of knowing the measure by which their annual demands upon the Government of India ought to be regulated. They had a purse to draw upon of unlimited because of unknown depth. They saw on every side the necessity for improvements, and their constant and justifiable desire was to obtain for their own provinces as large a share as they could persuade the Government of India to give them out of the general revenues of the Empire. They found by experience that the less economy they practised, and the more importunate their demands, the more likely they were to persuade the Government of India of their requirements. In representing these requirements, they felt that they did what was right, and they left to the Government of India, which had taken upon itself, the responsibility of refusing to provide the necessary means."[1]

To these extravagant demands the Government of India had often to yield; for, till very late, it did not possess the machinery to appraise the demands and to control the expenditure on them. It is not usual to expect much efficiency from any Imperial system of administration, much less when it covers not a department, not a province, but a country as big as a continent. Merely from being huge it is slow to move. Much slower would it necessarily be if it were a system as unorganized and unconsolidated as the Indian system was. First of all, the Imperial system in India was without

[1] The *Administration of the Earl of Mayo, as Viceroy and Governor-General of India— a Minute by the Honourable John Strachey,* a member of the Council and late acting Governor-General, dated April 30, 1872. Calcutta Office of the Superintendent of Government Printing, 1872, p. 46.

its executive machinery of control. The Act which created it must be said to have grievously erred in uniting into one the Government of Bengal and the Government of India. As a result of this fusion the machinery was overstrained. Its duties as the Government of Bengal left it very little time to attend to its duties as the Government of India. There was not only a common executive, but there was also a common Secretariat charged with the work of the two Governments. Overworked as the Secretariat was, its efficiency was considerably lowered by the absence of any officer specially charged with the duty of handling the finance of the country till 1843. It was in that year that Lord Ellenborough, the then Viceroy of India, separated the Secretariat of Bengal from that of India,[1] and attached to the latter a distinct office called the Financial Secretary to the Government of India,[2] unencumbered with the details of any other Department of State except that of finance. But while the want of a scrutinizing officer was thus made good by this appointment of a distinct Secretary of Finance, it was not possible for him to enforce economy in expenditure in the absence of a centralized system of audit and account and of an appropriation budget. Notwithstanding the establishment of the Imperial system of finance, the officers of audit and account remained attached to the Secretariats of the various Provincial Governments. They were not accountable to the supreme Government on whom the responsibility for the ordering and the management of the revenues of India had by law devolved. Being attached to the provincial Secretariat the Government of India could issue orders with regard to the accounts and the audits not directly but only through, and with the interpretation of, the Local Government concerned. Secondly, the budget system, though good enough for the purposes of mercantile accounts, that is, record, was useless for the first and elementary purpose of all good State accounts, namely, check. There were indeed three estimates (sketch, regular, and budget) prepared for the purposes of the financial administration of the country showing the amount of money required for the carrying on of each of the different services. But this distribution of public money on the different services was not held to mean appropriation. It was only treated as cash requirements. Owing to this fact the grants were never carefully prepared nor was the limit set on them observed in

[1] Government of India Resolution, Home Department, April 29, 1843.

[2] Government of India Resolution dated January 4, 1843.

practice. As there was no budget of specific votes or sanctions for each of the services the audit and account was simply concerned with noting whether record was kept of all the money that was received and paid through the public treasury. It is evident that in the absence of an appropriation budget the primary object of all State accounts and audit, namely check on the spending authority to abide by the sanction, was never achieved. The Provincial Governments, extravagant in their demands, were also careless in the matter of expenditure. So long as the Government of India remained without an appropriation budget and a centralized system of audit and account, it continued to be only a titular authority in the matter of financial control, and the provinces, though by law the weakest of authorities in financial matters, were really the masters of the situation.

To its inability to curb the extravagant habits of the provincial authorities generated by a financial irresponsibility on the part of the Provincial Governments and inefficiency on the part of the Central Government must be added the general spirit of apathy which marked the Executive Council of the Government of India in matters of finance. While it was true that nothing could be spent from the revenues of India without the specific vote of the Executive Council, it does not appear that the Council from its way of working could have taken any keen interest in promoting economy in expenditure. The Council acted collectively, and there was no distribution of executive work among the different members which composed it. With the exception of the Department of War and Legislation the whole work of the Government was brought before the Governor-General and his Councillors. As a result of its collective working

> "every case actually passed through the hands of each member of the Council, circulating at a snail's pace in little mahogany boxes from one Councillor's house to another."[1]

Under such a system nobody was a Chancellor of the Exchequer to urge economy, because everybody was supposed to be one. The result was that finance in being everybody's business

1 W. W. Hunter, Life of Mayo, Vol. I, p. 190.

suffered from being nobody's business, so that funds were distributed not according to the genuine needs of the services, but according to the relative claims and persistency of the clamour made for them.

Sufficient evidence has been given to show that the collapse of the Imperial system was due to a faulty fiscal system marked by injurious taxes and unproductive and extravagant expenditure. It must not, however, be supposed that this faulty fiscal policy commenced with the inauguration of the Imperial system. On the other hand, it was a heritage which descended to the Imperial system from the past. None the less it is obvious that a timely revision of the fiscal policy and the strengthening of central control would have solidified the foundation of the Imperial system. But a much too long continuance thereof undermined its financial foundations, and as it could get no more money to meet its rising expenditure from a people whom it had beggared, the Imperial system succumbed to the shock of the Mutiny, never to rise again in its original garb.

CHAPTER II

IMPERIALISM *V.* FEDERALISM

As the result of the cost of the Mutiny of 1857 the already precarious condition of the Imperial Finance became so grave that no problem during the succeeding decade can be said to have engrossed the attention of responsible authorities as the one relating to the rehabilitation of that tottering system. Although the controversy as to the proper line of reconstruction to be adopted was long drawn out, the causes of the collapse were so patent that all those who had anything to do with Indian Finance unmistakably laid their finger on one supreme defect in the system whose breakdown they had witnessed, namely, the irresponsible extravagance it engendered in the Provincial Governments. To obviate this evil it was sought on the one hand by some responsible authorities

> "to make the Local Governments partners in the great joint stock of Indian Finances, and, so to enlist their interest and animated co-operation with the Government of India, instead of keeping them on the footing of agents and servants, who, having no motive for economy and using the means of their masters, think only of enhancing their own demands by comparisons more or less well founded, with the indulgence conceded to others."[1]

This view gradually led to the formation of a considerable body of well-trained opinion for changing united India into the United States of India,[2] by making the provinces into separate and sovereign States. The aim was to substitute a Federal system for the Imperial system and to assimilate the financial position of the Central authority in India to that of the Central authority in the

[1] Minute by H.E. Sir W. R. Mansfield, Commander-in-Chief, dated October 17, 1867. *Papers, etc. on the extension of Financial Powers to Local Governments,* pp. 99-103.

[2] Cf. the Note of Col. R. Strachey dated August 17, 1867, in J. F. Finlay's History of *Provincial Financial Arrangements,* List of extracts, p. 3.

United States. For the consummation of the Federal plan it was urged that the revenues of India should not be dealt with as one income, collected into the Imperial Treasury and thence distributed among the different Provincial Governments. According to the plan each province was to be allowed to keep its revenues and meet its charges from them. The Central Government was to have its own separate resources and, if need be, supplemented by contributions from the provinces as their share of the expenditure of the Central Government based on some equitable standard. Thus under the Federal plan the consolidated Imperial Budget with its formal division between Imperial and Provincial was sought to be replaced by the creation of distinctly separate budgets, Central and Provincial, based on a genuine division of services and allocation of revenues.

Many advantages were claimed in favour of the Federal plan. First it was believed that the separation of the revenues and services would lead the ways and means of the Central as well as of the Provincial Governments to be clearly defined, so that each one of them would be responsible for administering its affairs within the funds allotted to it. Heretofore the Provincial Governments sent up their estimates of revenue and expenditure as returns unconnected with each other, and the task of balancing them was left to be done by the Supreme Government upon the aggregate of the different provincial estimates submitted to it. Under the Federal plan the provincial estimates would have to be balanced accounts of receipts and charges made over to them. Though primary it was not the only advantage which the Federalists claimed for their plan, for it was advanced not only as a measure to set bounds to the extravagant expenditure of the Local Governments by limiting the funds on which they were to draw, but also as a measure for setting bounds to the growing expenditure of the Central Government as well. The Federalists did not conceal the fact that the Central Government, being in a position to draw upon the total resources of India as a whole, was inclined to be extravagant in its own expenditure. They therefore thought that the Federal plan, involving as it did the allocation of revenues and services, would result in enforcing economy on the Central as well as on the Provincial Government.

The Federal plan was not only proposed by its advocates in the interests of economy and responsibility, but also in the interests of plenty. The Federalists denied that India offered few sources of revenue for the growing expenditure of the State. Though the Indian Finance ferry was water-logged, it was their view that there were many sources of taxation with the outpourings of which it could be set afloat. But they argued that these available sources were left untapped, as the Imperial Government, which could tap them, would not do so because of their restricted *locale;* and Provincial Government, which would like to tap them, because of their restricted *locale* could not do so under the existing constitutional law. But if the Provincial Governments were vested or rather re-vested with the powers of taxation as they would be under the Federal plan, such sources of taxation as were given up for being too regional-in character by the Imperial Government would be used by the Provincial Government to the great relief of Indian Finance as a whole.

Not only was Federalism advocated in the interests of economy and plenty, but also in the interests of equity. It was contended that the existing system resulted in an iniquitous treatment of the different provinces. If we take public works of provincial utility and the expenditure incurred upon them in the different provinces as the criterion, the criticism of the Federalists cannot be said to have been unfounded. On the other hand, the following figures go to substantiate a very large part of their arguments :—

OUTLAY ON PUBLIC WORKS

Average for the years 1937-8 to 1845-6

Province	Population in thousands	Area in sq. miles	Revenues in hundreds of Rs.	Expenditure on Public works in hundreds of Rs.
Bengal	40,000,000	1,65,443	10,239,500	1,79,812
N.W. P.	23,200,000	71,985	5,699,200	1,41,450
Madras	22,000,000	1,45,000	5,069,500	30,300

Complied from *Calcutta Review,* 1851, Vol. XVI, p. 466.

Thus the outlay on public works was in Bengal 1¾ per cent.; in North-Western Provinces, 2½ per cent.; and in Madras a little over ½ per cent. of their respective revenues. This favoured treatment of some provinces as against the others was justified by the Imperial Government, which distributed the funds, on the ground that the favoured provinces showed surpluses in their accounts. But the Federalists pointed out these deficits and surpluses ascribed to the different provinces were grossly fictitious. They were the result of a bad system of accounts. The system was bad for the reason that it continued to show the accounts of the financial transactions of the country not according to Heads of Account but according to the provinces in which they occurred as used to be the case before 1833 when there was no common system of finance. With the passing of the Act of 1833 this system of accounts had become quite out of keeping with the spirit and letter of that Act. This would not have mattered very much if the All-India items were separated from the purely provincial items in the General Heads of Account. In the absence of this the evils of the system were aggravated by entering exclusively into the accounts of a province the charges for what was really an All-India Service, so that it continued to show deficits, while others which escaped continued to show surpluses and claim in consequence the favoured treatment given to them. The Presidency of Bombay offered to the Federalists a case in point. The demands of the Presidency were invariably received with scant courtesy by the Government of India, for in its history Bombay seldom showed any surplus in her accounts. But, if it had been realized that the deficits were caused by the barbarous system of accounts which kept on charging the Presidency with the cost of the Indian Navy, it undoubtedly would have fared better. Such vicious ways of appointment were not the only evil features of the system of accounts. Under it it was quite common to charge one Presidency with the cost of a service and to credit another with the receipts thereof. How the deficits found in the Madras accounts were inflicted upon it by the erroneous system of accounts may be seen from the following :—

Cost of the Army of Occupation.		Revenues derived from the Occupied Territory		
Debited to	Amount	Credited to		Amount
	Rs.			Rs.
Madras	79,83,000	Bombay	...	20,00,000
		Bengal	...	1,04,22,870

Compiled from *ibid,* p. 475.

Taking into consideration the iniquities involved in such a system of accounts, it is beyond dispute that the advantage claimed by the Federalists for their plan was neither fictitious nor petty. A division of functions between the Federal and Provincial Governments would have in itself been an advantage by comparison with the existing chaos. And, if it did not result in equity, it had at least the merit of opening a way for it.

When however the Federal plan was put before the authorities in the form of a practical proposal, it gave rise to a determined opposition. The challenge was at once taken up by the supporters of the Imperial system who, be it noted, were mostly military men in civil employ. They opened their attack on the Federal plan from two sides, that of practicability and expediency.

Is it possible, asked the Imperialists, to localize the revenues and charges of India as belonging distinctively to one particular province ? They insisted that

> "from the commencement of (the British) power (in India).....the interests and affairs of (the) presidencies and the provinces have been interwoven and interlaced—one often overlapping the other, and vice versa—in a manner from which extrication or disentanglement is now impossible, without making changes which would entail inconveniences greater than any entailed by the existing system..... The army of Bengal Presidency is quartered not in the rich districts of the Lower Ganges, but mainly in the poorer districts of the Punjab. Thus placed, that army defends virtually the whole Presidency. The Madras army is not kept within that Presidency, but holds, besides the Madras country, the Deccan, the Central Provinces, and British Burma. Similarly the Bombay army holds,

besides its own Presidency, the State of Rajputana and of Malwa. The Lower Provinces or Bengal proper are in themselves rich; but besides their own revenues they receive large customs receipts, which belong partly to them, but largely also to the other Divisions of the Bengal Presidency. Even Bengal opium does not entirely belong to Bengal, a large portion being raised in the North-Western Provinces. In Bombay the opium revenue does not, strictly speaking, belong to that Presidency at all, being raised beyond its limits, in the territories which, if included in any Presidency at all, would pertain to that of Bengal. Some of the Salt Duties, both of Madras and of Bombay, are raised on salt destined for consumption in Central India, and, in strictness, should be credited to the Government of India. Instances might be multiplied; but it becomes instantly evident that, if an adjustment of these matters with a view to complete localization of finance were to be attempted, many difficulties, perhaps even disputes, would arise.....”[1]

Arguing in the same strain, Lord Lawrence, the then Viceroy of India, wrote :

“Experience has shown that it is convenient that the resources of British India should be considered in the aggregate and not with reference to the particular province in which it is raised. If the rule were otherwise, we must enter into the question—what are the revenues which each province may fairly claim? What are the items of expenditure which may justly be charged to each ? Is the Punjab, for instance, to be charged for all the British troops located in the hills for sanitary considerations ? Is the whole of the force ranged against the North-Western border to be similarly debited ? Are the troops quartered in Rajputana to be charged to the Bombay Presidency to which they belong, or in what manner is their cost to be arranged for ? On the other hand, we may be asked, why should not Bengal in particular—which, having no foreign neighbours, and a docile and timid population, requires only a minimum garrison—have the benefit of her surplus revenues ? Why on the

[1] Note by Sir Richard Temple dated November 7, 1868, Papers, etc., *on the extension of Financial Powers to Local Governments,* pp. 197-208.

> opposite view of the question should not Bengal bear her share of the cost of the troops located in the North-Western Provinces, the Punjab and Central India, which guard her from such invasions as those of the Rohillas, the Mahrattas and the Pindaries of former times ? These are all questions which would require solution if each were to have a financial system of its own."[1]

and in his opinion the question was impossible of solution.

But the Imperialists went further than this and argued that, even if it were possible to distinguish and localize the charges and the revenues into provincial and central, it was inexpedient to do so. Under the existing system of finance, they held that

> "the Imperial Government, disposing of financial resources of the whole of India, can carry those resources at once where they are most needed. There are objects which have a truly national importance, though they may appear chiefly beneficial to a particular district. There may be evils, necessities and dangers in particular districts, which it is the duty of the supreme Government to correct and remedy at the charge of the whole. The creation or improvement of a part may have a national importance, though the expenditure on it may seem unfairly beneficial to a particular locality. A road, a canal, a railway from a cotton district or a coffee district, or a tea district, may have a vital significance to the whole people and commerce of India; and yet the expenditure on such a work be out of all proportion to the present revenue of the district which it is destined to develop..... or the supreme Government may find it necessary to lay out, for moral and social purposes, larger sums on recently conquered, savage, or dissatisfied provinces than the revenues of those provinces seemed to warrant, in order to remove causes of disturbances or dangers, and to force those provinces into some degree of harmony with the long settled, pacified, reclaimed portions of the Empire..... The old provinces of the Empire conquer the new provinces. The old are bound in duty to civilize what they conquer. We have no right to

[1] Minute dated November 22, 1867, *op. cit.,* pp. .104-7.

> annex a country and then throw it on its own resources. Conquest has its own duties as well as its rights."
>
> "I venture to demur," wrote Lord Napier of Merchiston, President of the Council of Madras," to the policy of those who would restrict the benefits of the supreme Government to its receipts, and who would measure out in a parochial spirit to every province appropriations proportional to its specific returns. On the contrary, it ought to be a satisfaction to the rich to help the poor; to the old to protect the young ; to the good to improve the bad; for thus all can co-operate in building up the glorious fabric of a—United India. Such ends can only be attained by a Central Government disposing of the financial resources of a whole Empire"[1]

It is evident that arguments or sermons such as the above by themselves could never have supported the cause of the Imperialists. Notwithstanding the emphasis laid upon the difficulty of separating the revenues and charges into Imperial and Provincial, it must be conceded that the task was by no means so insuperable as the Imperialists made it out to be. The difficulty of apportioning the military charges could have been easily obviated by centralizing the military and making it a charge of the Central Government. On the same basis all those services charged to a particular Presidency or Province, but which from their nature benefited the whole Empire, could have been easily incorporated into the budget of the Central Government. Similarly it was possible in practice to allocate the existing sources of revenue between the Central and the Local Governments. The Central Government could have been allowed to retain for its use such sources of revenue the *locale* of which extended beyond the limits of a Presidency or the maximum yield of which depended upon a uniform administration of the same throughout the country. While on the other hand the Provincial Government could have been allowed to appropriate such sources which were restricted in their *locale* or the yield of which depended upon local vigilance. For instance, the customs duties could have been easily made a central resource, not only because their incidence was wider, but because they required a common and uniform policy of legislation and administration. The opium revenue could have been treated

[1] Cf. his Minute dated February 15, 1868, para. 9, op. cit., pp. 186-90.

as a central source of revenue, and the same treatment could have been granted to the salt revenue. Of course it would have been difficult to effect a separation of the sources of revenue in such a way as would have granted to each of the several Governments concerned resources adequate to meet the charges devolving upon them. A certain adjustment of funds by contributions from the provinces to the Central Government or from the Central Government to the provinces would have been inevitable; neither could it have been possible to obviate the adoption of principles more or less arbitrary in the matter of apportionment of revenues or of charges. But admitting the difficulties and arbitrariness involved in the problem of separating the Imperial Budget into a Central and several Provincial Budgets, it must still be said that it was quite capable of satisfactory solution. Colonel Chesney in response to the challenge thrown out by the Imperialists had made a notable attempt to distinguish the existing heads of charges into Imperial and Provincial. In his Indian Polity he says :

> "The items of Imperial expenditure for which contributions would be required consist apparently of—(1) the Home Establishment and charges disbursed by the Secretary of State ; (2) interest on Indian debt; (3) Establishments of the Government of India ; (4) Diplomatic establishment; (5) Army ; (6) Imperial Services—Post Office and Telegraph Department ; (7) interest guaranteed on railway capital; to which must be added (8) grants in aid to some of the poorer provinces (which do not at present pay their expenses)."

This and other efforts convinced the Imperialists that their argument from practicability was bound to fail. Consequently they shifted their emphasis from the argument from practicability to that from expediency. Expediency furnished a better ground for attacking the Federal plan. Can a Federal Government be as efficient as the Imperial Government ? Can its credit be as high ? Can its prestige be as great as that of the existing Imperial system ? It must be premised that it was fresh in the minds of the people that it was the Imperial system with a strong power of control that had saved the country to the British from the hands of the mutineers of 1857. The survival value of the Imperial system had been proved in the struggle. By a clever manoeuvre the Imperialists turned to e authorities and asked them to consider what had sustained the

Imperial system throughout the struggle. They did not fail to emphasize the point that it was because the Imperial system of finance had given into the hands of the Imperial Government the control over the management of the revenues and disbursements of the Empire that the latter, in an emergency like the Mutiny, could stimulate every source of income, close every avenue of outlet, and concentrate all its expenditure on the capital object at stake—the energetic prosecution of hostilities. They showed that, without the Imperial system of finance, the Imperial Government would have had to deal with lukewarm, reluctant, hesitating or even hostile partners, perhaps not directly concerned in the struggle or convinced of its necessity, and solicitous for exoneration or delay. Further they made out that the Imperial management of finance was vital not only in heightening the efficiency of government, but also in maintaining the high state of credit. Credit, it was argued, depended upon the magnitude of the revenue, and to disintegrate the revenues was tantamount to lowering the credit. The Federal plan was also accused of abrogating the European tradition which has given prestige a very high place in its code for Asian government. It was inconceivable to the Imperialists that the Central Government could maintain its prestige without centralization in finance, for it was the system of Imperial Finance which, having collected the leading strings in political and administrative matters into the hands of the Imperial Government, enabled that Government to dictate a policy and have it executed to its own satisfaction. But who could uphold the prestige of the Central Government, if it became a pensioner of the Local Governments subordinate to it?

Looked at from the vantage ground of detachment from the time of the controversy one may wonder what strength there was in the argument from expediency which gave the Imperialists such an easy victory over the Federalists. Federal Governments such as those existing in America, Germany or elsewhere do not lend support to the view that in their working there is bound to be a loss of efficiency, credit, or prestige. Their history has belied all these gloomy forebodings. But it should be remembered that at the time the controversy raged in India, much of the history of Federalism was a blank page, for Federalism was itself in its infancy. People, however, sided with the Imperialists, not because they could not draw upon the history of Federalism for arguments in its favour, but because the events of the time had inclined them to support the Imperial system. The Imperial system had saved India from the hands of the Mutiny of 1857, and when their fears of its repetition were not yet allayed it was too soon to expect them to consent to disrupt a machine that had just then proved its worth in the great contest. Conscious though they were of its defects, people recoiled from any attempt to tamper with it. So strong was the partiality of the people for the Imperial system that, notwithstanding the many defects which to their knowledge detracted from the efficiency of the system, they could give a sympathetic hearing to the Hon'ble Major-General Sir H. M. Durand, who wrote :

> "..... I assert confidently that at present there is absolutely no ground whatever for the allegation that the financial control of the Government of India goes to undue lengths in what it attempts, and miscarries miserably..... On the contrary, any partial miscarriage of control..... is no proof whatever that the rules are faulty, but that their relaxation is highly inexpedient, and that more rigid subordination of them should be enforced both by the Government of India and the Home Government. To subvert the financial control of the Central Government because one out of nine administrations has proved rather refractory, is about as sensible a procedure, to my mind, as to annul the articles of. War and the powers of the Commander-in-Chief because a regiment should somewhat happen to misbehave. I venture to doubt the statesmanship of ruling either India or armies in this way."[1]

Notwithstanding the victory of the Imperialists, it must be said the Federalists lost a cause which was bound to succeed. For the sentiment of the time, however favourable to the retention of the Imperial system, was powerless to resist the force of events. The Imperial Government had to be extricated from the state of chronic penury in which it had fallen, and if statesmanship did not favour the system of Federal Finance as a means, financiers soon learnt that the system of Imperial Finance was doubtful as an end.

●●

[1] Minute dated October 7, 1867, *vide* op. cit., pp. 94-7.

CHAPTER III

THE COMPROMISE

IMPERIAL FINANCE WITHOUT IMPERIAL MANAGEMENT

If the Federalists failed to carry the day, they at least led their opponents to improve the system by removing some of the most radical defects from which it suffered. Attention was mainly directed towards revising the revenue laws and improving the machinery of control so that more revenues be obtained and less wastefully spent. With the primary object of making the Imperial system strong and prosperous, serious attempts were made about the close of the rule of the East India Company to do away with the oppressive taxes which had so long retarded the prosperity of the people and consequently of the Government. The internal custom duties were done away with, and the country was not only freed from all restrictions which hampered the growth of trade and industry, but positive encouragement was given to them by introducing the element of protection in the import tariff and trade was facilitated by equalizing the duties on English and foreign shipping. Articles of export were also relieved from the handicap of export duties and efforts were made to improve the cultivation and pressing of cotton, tea and other staples which commanded a great market in Europe and elsewhere.

The administrative machinery was next subjected to revision. Advantage was taken of the Indian Councils Act of 1861 authorizing the Viceroy "to make from time to time rules and orders for the more convenient transaction of business in his Council," to bring legally to an end the system under which the whole Council was supposed to take part collectively in the disposal of all the business of the Government by assigning to each member of the Council the charge of a separate department of administration; the Council was thus virtually converted into a Cabinet of which the Governor-General became the head. In this manner a place for a

Chancellor of the Exchequer was created to which was appointed the well-Known financier, Mr. James Wilson. The attention of Mr. Wilson was directed first of all to the improvements in the machinery of fiscal administration. The credit of establishing in India a uniform system of accounts, centralization of civil and military audit, and the introduction of an appropriation budget, rightly belongs to him. With the improvement in the revenue laws and the check on waste through improved and efficient administration was combined the policy of retrenchment in expenditure,[1] and the budget and audit rules were

> "so framed as to leave to the head of each Local Government or of each branch of administration a much larger (*sic*) discretionary power than..... heretofore..... allowed in rearranging the details of expenditure"[2]

if that led to retrenchment. So drastic was the economy practised that, soon after the inauguration of the policy of spreading education throughout the country initiated by the dispatch of the Secretary of State in 1854, a stop was put to any increase of expenditure on education.[3]

But notwithstanding all these efforts at betterment howsoever diligently sustained, they did not improve the finances of India materially; at any rate. Mr. Wilson in his Financial Statement for 1860-1, by way of summing up the financial situation, said:

> "we have a deficit in the last three years of £ 30,547,488; we have a prospective deficit in the next year of £ 6,500,000; we have already added to our debt £ 38,410,755."

To meet this huge deficit Mr. Wilson was obliged to augment the stamp duties, double the external customs, and impose an income tax, hitherto unknown to the people. Even the yield of these "three tremendous taxes" did not help Mr. Samuel Laing, the successor of Mr. Wilson, to a prosperous condition, for he too in his Financial Statement for 1861-2 wanted £ 500,000 fairly to weather his deficit and get into smooth waters with a small surplus. A few years of financial prosperity intervened. But Mr. Massey, who relieved Mr. Laing in 1866,

[1] Cf. Finance Department Resolution No. 126 of November 19, 1860, published in the Appendix to the *Calcutta Gazette* dated November 24, 1860, p. 35.

[2] *Ibid,* para. 20.

[3] Notifications, *Calcutta Gazette,* August 14, 1858, p. 1642.

> "upon a review of the financial condition of the Empire and the increasing demands made upon its resources..... deemed it expedient to make provision for a permanent addition of a million sterling at the least to the existing revenue."[1]

Why the efforts of these successive Finance Ministers were not crowned with success is to be explained chiefly by the fact that the administrative and public needs of the country had grown beyond measure. After the Mutiny

> "thousands of Englishmen, not only soldiers, but Englishmen of almost every class, poured into India. Ten thousand things were demanded which India had not got, but which it was felt must be provided. The country (had to be) covered with railways and telegraphs, roads and bridges. Canals (had to be) made to preserve the people from starvation. Barracks (had to be) built for a great European army, and every sort of sanitary arrangement which would benefit the troops (had to be) carried out. This was not only true in regard to matters of Imperial concern. Demands for improvements similar to those which fell upon the Central Government cropped up in every town and in every district controlled by the Local Government. The demands for improved administration also made themselves effective. The police was in a shameful condition throughout India..... and the inadequacy of the pay given to native judges and other subordinate officers employed in the posts of importance in the courts was declared by Lord Lawrence when he was Viceroy to be a public scandal. Among more than four thousand of these officers in the Bengal Presidency, the highest paid of all, and these were very few, received £180 a year. The great majority received from £12 to £24 a year sums less than those earned in many parts of India by common bricklayers and carpenters. All these had to be put on a completely new footing."[2]

While the needs for expenditure were thus growing, economy in expenditure became difficult of achievement. Comparatively easy at first, each successive measure of economy became directly, as well as relatively, more arduous than its predecessor. The growing

[1] Circular letter to the Local Governments dated February 21, 1866.

[2] The above is taken with some alterations of a purely literary character from the "Observations on some Questions of Indian Finance," by Sir John Strachey. House of Commons Return 326 of 1874.

needs of improvements, hitherto neglected, and the contracting scope for economy, combined to demand an ever-increasing scale of taxation. The dangers of increased taxation by an alien Government of a people not interested in obtaining the amenities of life, much less at the cost of a tax, were uppermost in the minds of the three great financiers who were sent out from England in succession to rehabilitate the finances of India on a sound and stable basis. They realized that unless bounds were set to these demands for improved administration and improved material and moral conditions, the immediate benefits of which were enjoyed more by the European than the native population, taxation howsoever high would be inadequate for financial solvency, besides being dangerous to the political stability of the Empire. Under the existing system of barren uniformity and pedantic centralization their object was thought to be impossible of achievement; for the Local Governments, on which alone the Central Government could depend for economy, rendered at best to that Government not only a cold and languid support in financial vigilance and *reform,* but too often exhibited a passive resistance, and even countenanced evasions of regulations intended to be conducive to economy. The only way to make Local Governments economical in their ways was to give them the power and responsibility of managing their own affairs. As a matter of administrative experience the financiers had found that while some of the branches of revenue and expenditure were truly imperial, there was a wide field of both of them which was properly local in character, and ought to have been entrusted to Local Governments. They were convinced that there could be no standard of economy until the requirements of the Local Government were made absolutely dependent upon known means, and nothing they thought would serve to make known to the Local Governments the means available for their outlay than to carve out from the Imperial purse a separate purse of definite magnitude for the use of Local Governments and to throw on them the responsibility of meeting their demands and maintaining an equilibrium in their finance.

Thus they were led to the same conclusion as the Federalists. However, to make the plan acceptable to the Imperialists, they made certain concessions without seriously compromising the working of the plan. The Federal plan required a change in the constitution of the system of government in India. It necessitated a *legal* partition of the revenues and charges of India between the Central and the several Provincial Governments. While all, including the Imperialists, recognized in the Federal plan a powerful measure for enforcing financial responsibility and economy, the chief objection to it arose from the fact that it sought *legally and permanently* to divest the Central Government of the resources of India. The financiers as practical politicians soon found out a way to obviate this defect in the Federal plan. By virtue of their experiences of the working of the British Parliament they found that there was no necessity to resort to a constitutional change. Convention was deemed to be as good as law and, once established, can seldom be altered without disturbance. Separation of charges and revenues between the Central and Provincial Governments was therefore proposed to be made a matter of convention which could be upheld so long as it was profitable for the parties concerned to do so. This gave all the advantages of the Federal plan without legally divesting the Central Government of its control over the resources of India. In its nature it was a compromise between constitutional Imperialism and constitutional Federalism. It meant Imperial finance without Imperial management. Under the compromise the revenues and charges remained Imperial in their status, but their management was to be provincialized, so that each of the Provincial Governments was given to administer a part of the Imperial charges incurred in its territory within the limits of a part of the Imperial revenues collected within its territory. This was the essence of the new plan. It differed from the Federal plan in retaining to the Imperial Government the supreme controlling, councilling and regulating authority in all matters pertaining to Indian Finance, without its being actually engaged in the details of the administration of a *part* thereof.

In the essence of the plan as described above all the three finance ministers who were called upon to undertake the task of reconstruction had agreed. They differed, however, in the scale on which it was to be carried out. Whether Mr. Wilson had ever elaborated his own skeleton of the plan is doubtful; but that the idea of it had occurred to him seems pretty certain. The Income Tax Act XXXII of 1860, imposed by him

> "was meant to consist of two parts—first, a variable tax, originally fixed at 3 per cent on incomes, which percentage it was intended should be raised or lowered as the general exigencies of the Empire required, and which might if the state of the finance should ever permit, be entirely remitted; and secondly, a permanent tax of 1 per cent., which was to be at the disposal of the local administration, and to be expended on roads, canals, and other reproductive public works, within the area which paid the tax (*vide* sections 190-4 of the Act). This portion of the tax was never intended to be remitted. It was always to be kept up, not only to meet the charges to which it was applicable, but in order to maintain the machinery of the tax so that at any moment of exigency, after a temporary remission the other portion of the tax, applicable in aid of the general finances, might be re-imposed without agitation, discussion, or trouble."[1]

But, as Mr. Wilson did not live long enough to elaborate his ideas into a scheme, it is difficult to say to what extent he intended to work them out in practice.

Mr. Laing, the successor of Mr. Wilson, put it in a much more definite shape. His budget for 1861-2 was for a deficit caused chiefly by the pressing demands of the Local Governments for useful public works, and his sense of financial safety compelled him

> "to curtail roads, canals and other useful works of this description, to the allotment on which they (had) been carried on or rather..... starved, since the Mutiny."

But his anxiety to promote the useful public works, the urgency of which he fully recognized, led him to propose to the Provincial Governments a method of supplementing the scanty Imperial grants made to them. He said to them :

> "Take what we are able to give you, and for the residue take certain powers of taxation and raise it yourself..... for there are certain subjects which can be dealt with far better by local than by Imperial taxation..."

[1] Minute by Sir B. Frere dated November 25,1866, para. 30. *Papers, etc., on the extension of the Financial Powers of the Local Governments,* p. 42.

His object was to enact local budgets "not merely to meet a temporary difficulty but to inaugurate a permanent improvement," to the relief of the Imperial treasury and the benefit of the Provincial Governments. This scheme involving the management of the public works charges by the Local Government with an allotment from the Imperial revenues supplemented by the power to tax had secured a general approval. But at the time when the scheme was put forward the Local Government was without the requisite machinery for carrying into execution the powers of legislation necessary to impose the taxes proposed to be given to them. The execution of the scheme had therefore to be postponed pending the enactement of local legislative councils then undertaken by Parliament. But, the ensuing years having been years of financial prosperity, the interest in the scheme relaxed and it was consequently dropped *sine die*.

This spell of prosperity, however, proved to be only a passing phase and the stress of returning adversity which beset Mr. Massey compelled him to revive the scheme in a much more enlarged form.[1] He proposed that:

> "In considering the ways and means by which the additional amount (of one million sterling) should be raised .....the most convenient mode of proceeding would be by a partial transfer of charges of a local character from Imperial to local account."

As the annual produce of local funds applicable to local purposes in India did not much exceed two million sterling, it was proposed to make the moderate addition to this amount of £1,200,000 in round numbers to be raised in rateable proportions in the several Presidencies and Local Governments, and applied in relief of a corresponding amount of charge for local services then borne by the Imperial revenues. The above-mentioned sum of £1,200,000 was arrived at by an assessment of 4 per cent on the estimated revenues of the several Local Governments (except Burma) for the current year, after excluding customs duties and the income tax.[2] The heads of charges to which the proceeds of the new funds were applicable were (1) education, (2) police, (3) district jails, (4) public works, (5) repairs and maintenance of roads. The list of taxes suggested to provide ways and means

[1] Demi-official letter dated February 25, 1866, to the Local Governments. *Papers, etc., on the extension of Financial Powers of Local Governments,* p. 67.

[2] *Ibid,* para. 8.

included (1) a license tax on trades and professions, (2) a house tax, (3) an octroi duty in towns, and (4) a succession duty on lands which did not pay revenue. The Local Governments were to be left free, subject to the approval of the Government of India in Council, to select the particular tax most suited for being levied in their respective territories so as to yield the full amount required, after deducting the cost of collection, and spend the proceeds on the services mentioned above, *on* all or any of them, according to their discretion.

The replies of the Local Governments and administrations addressed in connection with this scheme, indicated a general agreement as to the practicability of such a transfer of charges being made and being met by new local taxation, though there was also a general disposition to object to the transfer of charges without a simultaneous transfer of revenue with which to meet the expenditure on them. Under the circumstances the Government of India agreed to reduce the expenditure to be transferred to the Local Governments to £ 800,000 and to transfer to them the proceeds of the license tax as a means for making adequate provision for the same.[1] The favourable reception accorded to the scheme and the sympathetic criticism to which it was subjected led Mr. Massey to extend and modify it. In his exposition[2] of the new and enlarged scheme Mr. Massey wrote :

> "my first object has been to select, for the first series of charges to be transferred to local authorities, those items of expenditure which being least susceptible of control by the Government of India, give as a whole, an amount of such dimensions as will not be difficult to manage, and yet will be of sufficient importance to indicate that the measure is intended to be a reality, and a step towards the more complete transfer of the financial administration to the local government. Taking the civil estimates..... it seems to me, plainly, the most convenient method of proceeding to transfer a few entire grants or section of grants, in preference to selecting special items from several

[1] Circular letter dated September 19, 1867. *Op. Cit.,* p. 67.

[2] The new scheme was outlined at the request of Mr. Massey by Col. R. Strachey in Note on the Transfer to Local Governments of the Control over Certain Portions of Public Expenditure, *ibid,* pp. 51-62.

grants..... By adopting the plan..... no change whatever in the system of accounts will be called for; and the only alteration will be, that certain sections of the grants for various purposes, will be provided in a special manner. The only exception to this rule..... is in dealing with a head 'Miscellaneous' which..... is rather an incongruous collection of charges. Among these will be retained, for transfer to local management, all those items which would reasonably be termed local..... and the residue..... could easily be classed under some of the other main heads of charge. The most important of the charges which I should propose to transfer is that for 'Jails' subordinate to 'Law and Justice,' which may... be taken in lump. The charges for ' Registration 'and' Tulubana' also under 'Law and Justice' follow. These are met from special fees credited under the head of 'Law and Justice'. To set off against these charges, a transfer of the revenue under 'Law and Justice' is also proposed... Under 'Education' the 'Miscellaneous' charges are proposed to be transferred to the corresponding transfer of the revenue credited under 'Education'. Next follows the whole of the charges under 'Medical Services' except the fixed 'Medical Establishments and Chemical Examiners'. The entire charge under 'Stationery and Printing' is also taken. Under 'Police' the charges met by contributions from local sources are transferred, including the Railway Police. Against this is set off the receipts under 'Police'. 'Besides the above it is proposed to transfer a portion of the charges, for the collection of the Land Revenue and of the Income Tax and License Tax, which... I have assumed as likely to be levied in future. It has been necessary to assign a sum sufficient to cover the general charges which would be transferred and the propriety of transferring a corresponding portion of the cost of collection seems apparent. Under the designation of charges of collection of the Land Revenue were not included the cost of the Revenue Survey or Settlement as they were exceptional and variable, though the charges under 'Allowances to Village Officers' were included.

* * * *

"The first and principal transfer of revenue will be a portion of the Land Revenue, which I propose to fix at $^{1}/_{16}$th or one anna in the rupee. The same rate will govern the proportion of the charges for collection transferred..........

"The next item of revenue which I assume at one-fourth of the Income Tax and License Tax, which I shall suppose to be raised.[1]

"It is next proposed to transfer the whole of the receipts under the following heads : (1) Law and Justice, (2) Police, (3) Education, (4) Miscellaneous, except items of a financial nature, and also (5) all income under Police Works excepting that derived from Irrigation. The items of expenditure under Public Works proposed to be transferred are (1) Roads, (2) Repairs of Civil Buildings, (3) Miscellaneous works both new and repairs, and (4) Tools and Plant."

The scheme thus enlarged was discussed at length from various points of view. But though it won the approval of cautious critics[2] the scheme was too large for the Imperialists. And as the two greatest of them, Lord Lawrence, the Viceroy of India, and Lord Napier of Merchistoun, Governor of Madras, disapproved of it, it failed to materialize in consequence of their opposition.

But unfortunately for the Imperialists, throughout this decade during which they were stubbornly objecting to any surgical operation on their patient—the Imperial system of Finance—it did not show any sign of convalescence. On the other hand, the delay in the operation aggravated its ills. Notwithstanding the constant enhancement in taxation and the reduction in expenditure, the three Chancellors of the Indian Exchequer sent from England could point to only three years of surplus during the decade between 1860 to 1870. On the other hand, to the embarrassments due to constant deficits was added the bewildering breakdown of the budget system created to bring about order and economy in

[1] In thus calculating the share Mr. Massey wrote, "The Income Tax I have taken at 2 per cent, and I have conceived that it will cease below incomes of 2,000 rupees. The Licence Tax I have supposed to be a trade tax beginning at the existing limit and going upwards to meet the Income Tax."

[2] Sir Stafford Northcote declared—"We must take care that the solidarity of Indian Finance is not shaken, and we must provide safeguards against reckless expenditure. We have a system which has raised the credit of India to the highest pitch, and therefore I should be the last to disturb it, and would be slow and cautious in introducing any change. Nevertheless, I repeat that in the principles of Mr. Massey's suggestions I concur."—*Hansard's Parliamentary Debates,* Vol. 191, April 23, 1868.

the public finances of the country. Not to speak of its efficiency as an instrument of economy, the budget system under the strain due to excessive centralization proved useless even as an instrument of order. The finances fell into a chaos. Notwithstanding the elaborate circulars and orders issued with regard to the accuracy in the framing of the budget estimates, it was an extraordinary phenomenon which confronted the Finance Ministers when the budgets, which were begun with large estimated surpluses, strangely enough closed with large actual deficits. To what extent the actuals erred from the estimates may be seen from the following table :

DERANGEMENT OF GOVERNMENT FINANCES [1]

Year	Estimate Deficit—Surplus	Actual Deficit—Surplus
	£	£
1866-67	—66,700	—2,307,700
1867-68	1,628,522	— 923,720
1868-69	1,893,508	— 2,542,861
1869-70	48,263	— 1,650,000(est.)

From the above table it is clear that the estimates for 1868-9 and for 1869-70, which were based on the revised estimates of 1868-69, were expected to end with an estimated surplus of £1,893,508 and £48,263 respectively. But when the actuals of the year 1868-69 showed that instead of a surplus there was to be a large deficit, Lord Mayo, who was in the meantime appointed to the Viceroyalty of India, became convinced that if his budget was recast on the basis of these results, it would close with an actual deficit instead of the estimated surplus. This financial surprise threw his budget into confusion, and to restore order he was obliged to adopt the

[1] Hunter, W.W., *Life of Mayo,* Vol. II, pp. 7-8.

The figures for actual deficits given in the Table differ from those given by Mr. Chapman, Offg. Secretary to the Government of India, F.D., in his Circular letter of 17-8-1870 to the Government of Bombay communicating to the latter Lord Mayo's scheme. According to Mr. Chapman the figures for deficit (actual) are as follows:—

In	1866-67 the actual deficit was	... ...	£2,517,491
”	1967-68 ” ”	... ...	£1,007,695
”	1968-69 ” ”	... ...	£2,774,031

—*cf. Papers, etc., on the extension of Financial Powers of the Local Governments,* p. 243, for the Circular letter referred to.

unusual procedure of addition to taxation and the reduction of expenditure in the midst of the fiscal year.

The following is a synopsis of the measures he adopted :—

					£
I.	Additional Taxation				
	(1)	Income Tax raised from 1 to 2½ per cent			320,000
	(2)	Enhanced Salt Duty (in Madras and Bombay)			180,000
			Total	...	500,000
II.	Reduction of Expenditure—				
	(1)	Education		...	350,000
	(2)	Public Works		...	800,000
			Total	...	1,150,000
	Estimated Deficit			...	1,650,000

So grave was the crisis that with all these measures he could do nothing more than close his budget with an estimated deficit of £1,650,000 which would have been inevitable had it not been for certain windfalls such as the recovery of the value of supplies in the Abyssinian War and the adjustment of other large outstanding accounts which enabled him to convert his large deficit into a small surplus. Happy as he was over the immediate results of his efforts, Lord Mayo was convinced that there was something rotten in the system of Imperial Finance and, while anxious not to end it, he courageously set forth to mend it by inaugurating the scheme of Provincial Finance represented by the compromise the growth of which will be the subject-matter of Part II of this study.

●●

PART II

PROVINCIAL FINANCE : ITS DEVELOPMENT

CHAPTER IV

BUDGET BY ASSIGNMENTS

1871-72 TO 1876-77

The origins which led to the formulation of the scheme of Provincial Budget having been presented in the foregoing part of this study, we may now proceed to examine the constitution of the scheme as it was introduced and the changes which it underwent from time to time.

With his sureness of instinct Lord Mayo traced the financial deficits and surprises to the inefficiency of the Imperial and the irresponsibility of the Provincial Governments, and was led to the conclusion that the inauguration of Provincial Budgets was the only remedy equal to the malady. But it must be recalled that the situation was yet dominated by Imperialistic considerations, and while every one in charge of the affairs was desirous, even anxious, to ease the situation by some means or other, few were willing to do so at the cost of Imperial control. Even Lord Mayo was not without his Imperialistic leanings. But the force of the baffling circumstances compelled him to break through the hitherto prevailing spirit of hesitation and indecision, although the steps he took in determining the constitution of the Provincial Budget were slow and cautious.

The scheme which actually came to be introduced from the financial year 1871-2 was first adumbrated in a confidential circular of the Home Department of the Government of India, dated February 21, 1870. Enlarging upon the policy of retrenchment by which the road grant for 1869-70 fixed in the beginning at £ 1,236,000 came to be reduced at the close of the year to £1,021,178 and that estimated for 1870-1 at £ 1,000,000 came to be finally settled at £ 784,839 supplemented by £ 29,110 for Miscellaneous Public Improvements, the circular gave the Provincial Governments

> "to understand that the diminution that has been made in the Imperial grant for communications and roads is not a temporary diminution caused by present financial pressure. It is the result

of a settled policy, deliberately adopted, independently of temporary considerations, and it is far more probable that in future years the special grant for these purposes will be reduced than that it will be increased. It therefore becomes a matter of very urgent necessity that no time should be lost in providing from local sources the funds necessary for the maintenance of the existing provincial and district roads, and for the construction of the new lines of communications which become every day more necessary."

That local wants should be met by local resources had been the ideal of Indian financiers during the entire period of its reconstruction. But that the view had by that time passed beyond the stage of academic discussion is obvious, for the Circular stated that "the Governor-General in Council had fully resolved that he will insist on full effect being given to this principle" in future. Many of the Local Governments took the sentiments of the Government of India conveyed in the Circular in all the seriousness in which they were meant to be taken and had begun to develop their local resources. In the Bombay Presidency a cess of 6¼ per cent. on the Land Revenue was levied and two-thirds of it was set aside for roads and works of public utility. The Madras Government under an old Act of 1866 levied a cess of one-half of an anna on every rupee of annual rental equal to 3⅛ per cent. on the Land Revenue for purposes of district roads. The Bengal Government had declared its intention to follow the Madras Presidency. Encouraged by the steps taken by these Local Governments the Circular urged upon other Local Governments and Administrations in Northern India, namely, North-Western Provinces, Punjab, Oudh and Central Provinces, to consider the expediency of increasing their road cesses on the land revenue to 5 per cent. The object of the move evidently was to relieve the Imperial treasury of the road grant, once the Provincial Governments were in possession of adequate local revenues.

In this way the Circular contemplated a very meagre scheme of Provincial Budget, incorporating only the charges on local public improvements and the revenues derived from local resources to meet them. But before it could be set into operation the financial difficulties of the Government of India called for a larger measure of relief. Bad as the position already was, there was little confidence to be placed in the stability of the opium revenue; and, while there was practised a retrenchment in expenditure, the charges for interest on public debt was found to swell enormously. In the midst of such a percarious situation the Government of India decided to reduce the hitherto prevailing rate of the income tax in order to silence the outcry raised against it by the richer classes. As a possible method of ways and means to meet the additional deficit of £1,000,000 that was expected to arise from the reduction in the income tax rate, the Government of India issued another Confidential Circular, dated August 17, 1870, in which a much wider scope was given to the contemplated scheme of provincial Budgets. It was stated in this Circular that

> "If the income tax was to be reduced, the ways and means of government must be otherwise recruited..... preferably..... through the agency of Local Governments, and by adopting such methods of taxation as are considered most suitable to each province and least burdensome to the people."

The method of throwing the burden on Local Governments consisted in making over to them charges of certain departments of the administration more or less local in character with a net grant on them for 1870-1 reduced by a million sterling.[1] It was proposed to distribute this sum among the various provinces in the proportion which the net provincial grant of each bore to the total net grant and leave them free to make up their respective quota of retrenchment either by redistribution, retrenchment, or taxation.

After the concurrence of the Provincial Governments had been obtained to the plan of the Circular, it was announced by the famous Financial Resolution of December 14, 1870, as being adopted for execution from the commencement of the Financial year 1871-2.

We will now proceed to analyse the constitution of the Provincial Budgets as framed by this Resolution. Taking first the expenditure side of the Provincial Budget, it may be noted that the charges for the following Imperial services were incorporated into it:—

*1. Jails.

[1] Net grant means total expenditure on a service minus the receipts from the service.

*Appendix B of the Resolution gives a schedule of certain works for which separate funds were to be provided from the Imperial Revenue. They were Buildings and Offices of the following Departments :—

Opium (not including the Board of Revenue's office in Calcutta).
Mint and Currency.
Post Office.
Telegraph.
Offices of the Supreme Government.
Viceregal Residences.

Imperial Museum. Stamp and Stationery Office Treasury Buildings	Calcutta.
Bhishop's Palace	
Godavery Works Karachi Harbour Improvements	Reserved as Imperial for the present.

Such Military Roads as have been till the current year provided for from the grant for "Military Works".

2. Registration.
3. Police.
4. Education.
5. Medical services (except Medical establishments).
6. Printing.
7. Roads.
8. Miscellaneous, Public Improvements.
9. Civil Buildings.

To provide the Provincial Governments with funds to meet the above charges incorporated into their budgets the Government of India surrendered to them the receipts which accrued from services handed over to them with an additional assignment from the Imperial fisc to bring about an equilibrium. The receipts surrendered and assignments granted to the Local Governments were as follows:—

Assignments made to Provincial Governments for services incorporated into their Budgets by the Financial Resolution No. 3334 dated December 14, 1870.

Services incorporated into Prov. Budgets	Imperial Assignments for Services								
	Oudh	C.P.	BL Burma	Bengal	N.W.P.	Punjab	Madras	Bombay	Total
	£	£	£	£	£	£	£	£	£
Jails ...	26,922	27,881	32,777	218,210	88,394	58,204	91,983	73,440	617,811
Registration ...	...	3,509	...	36,609	20,129	11,623	22,970	25,372	120,212
Police ...	103,269	130,607	139,253	555,757	348,135	289,950	350,730	388,703	2,306,409
Education ...	26,056	27,864	10,998	234,385	103,528	64,909	90,052	118,271	676,063
Medical services (except Medical establishments)	5,049	11,770	6,460	89,713	27,607	24,935	61,696	74,852	302,532
Printing ...	7,609	3,640	3,000	41,732	25,302	14,106	25,840	27,050	148,279
Roads and misc. public improvements	32,900	63,403	63,000	157,800	82,636	84,200	123,880	121,900	729,819
Civil buildings ...	20,090	14,406	23,959	111,370	63,341	39,710	58,506	107,500	438,882
Public Works Establishments	13,777	20,230	22,635	69,984	37,954	32,217	47,421	59,644	303,862
Tools and Plant ...	1,060	1,556	1,741	5,383	2,920	2,478	3,648	4,588	23,374
Total ...	237,182	304,866	303,923	1,520,943	799,946	622,332	876,726	1,001,320	5,667,243
Estimated Receipts of the Services									
Jails ...	1,575	6,000	9,420	110,385	11,154	...	7,300	664	146,498
Registration ...	...	5,500	...	40,000	35,030	20,694	34,000	30,141	165,356
Police ...	10,566	12,520	18,671	70,363	51,730	41,724	32,350	14,000	251,944
Education ...	1,482	...	500	42,012	11,050	5,000	6,900	10,480	77,424
Printing ...	1,080	...	...	2,000	2,160	...	1,260	...	6,500
Total ...	14,723	24,020	28,591	264,760	111,124	67,418	81,810	55,285	647,731
Grand Total of net assignments	222,459	280,846	275,332	1,256,183	688,822	554,914	794,916	946,040	5,019,512

Constituted on the basis of figures given in the Resolution of December 14, 1870

These would have been the total assignments to the Provincial Governments for meeting the charges on the incorporated services, had it not been for the fact that the Government of India desired to obtain relief by way of retrenchment of the provincial resources to make up for the deficits expected to follow the reduction in the income tax. The relief originally fixed at £1,000,000 was reduced to £350,000, distributed rateably among the various provinces. Taking account of these retrenchments the permanent assignments made to the provinces were as shown below:—

Provinces		Next Assignments	Proportion of Retrenchment	Permanent Assignments
		£	£	£
Oudh	...	222,459	15,511	206,948
C.P.	...	280,846	19,583	261,263
Burma	...	275,332	19,199	275,332
Bengal	...	1,256,183	87,591	1,168,592
N.W.P.	...	688,822	48,030	640,792
Punjab	...	554,914	38,693	516,221
Madras	...	794,916	55,428	739,488
Bombay	...	946,040	65,965	880,075
Total ...	...	5,019,512	350,000	4,688,711

For conversion into Rupees, £1 equal to Rs. 10.

Before the commencement of the time appointed to carry the scheme into practice the Government of India incorporated the following additional services[1] into the Provincial Budgets :—The Charges for Petty Construction and Repair of Buildings in the Civil Department excepting the Opium Department in Bengal, the Salt Department outside the Lower Provinces of Bengal and Medical Services such as (1) Salaries of Medical Officers of Medical Colleges and Central Jails, and of Lunatic Asylums at the Presidency towns; (2) Extra allowance to Medical Officers for the Medical charge of Lunatic Asylums in the mofussil, and of Colleges, Central Jails, etc., also extra allowances to Medical Officers for the executive charge of jails, and (3) charges for sub-assistant Surgeons and Apothecaries employed in other than civil medical charge of the sudder stations or districts, and for all other subordinate medical establishments. Side by side with these transfers the Government of India withdrew the Calcutta

[1] Finance Department Resolution No. 1659 of March 20, 1871.

IMPERIAL ASSIGNMENTS FOR 1871—72[1]

	Oudh.	C.P.	Bt. Burma	Bengal	N.W.P.	Punjab	Madras	Bombay	Total
	£	£	£	£	£	£	£	£	£
Assignment as per Resolution of December 14,1870 ...	1,69,355	205,271	192,488	1,176,406	613,095	463,727	643,271	707,693	4,171,306
Add—									
Official Postage ...	1,551	5,093	...	4,893	10,840	8,031	4,163	4,311	38,882
Transfer from Medical Services ...	2,139	1,767	745	6,649	5,624	2,828	7,597	8,500	35,849
Transfer of petty construction and repairs of Civil Buildings	699	1,778	420	6,508	2,555	1,908	1,050	4,050	18,968
Other items net	...	...	...	7,866	1,485	...	...	4,600	13,753
					633,599				4,278,758
Deduct—									
Transfer of Ajmere charges to Government of India ...	...	...	...	...	28,714	...	...	...	28,714
Total ...	173,744	213,909	193,653	1,202,124	604,885	476,494	656,081	729,154	4,250,044
Deduct—									
Receipts per budget of 1870-1	14,723	24,020	28,591	260,578	109,992	67,418	81,810	55,285	642,417
Net charge in Civil Department	159,021	189,889	165,062	941,546	494,893	409,076	574,271	673,869	3,607,627
Add budget grant for P. W. as per Res. of 14-12-1870, viz—									
Roads and miscellaneous public improvements ...	32,900	63,403	63,100	157,800	82,636	84,200	23,880	121,900	729,819
Civil Buildings	20,090	14,406	23,959	111,370	63,341	39,710	58,506	107,500	438,882
P.W. Establishments	13,777	20,230	22,635	69,984	37,954	32,217	47,421	49,644	303,862
Tools and Plants	1,060	1,556	1,741	5,383	2,920	2,478	3,648	4,588	23,374
Total public works ...	67,827	99,595	111,435	344,537	186,851	158,605	233,455	293,632	1,495,937
Grand total ...	226,848	289,484	276,497	1,286,083	681,744	567,681	807,726	967,501	5,103,564
Deduct—									
Proportion of £350,000	15,557	19,853	...	88,199	46,753	38,931	55,394	66,351	331,038
Revised permanent assignment	211,291	269,631	276,497	1,197,884	634,991	528,750	752,332	901,150	4,772,526
Or in round numbers	211,300	269,600	276,500	1,197,900	635,000	528,800	752,300	901,200	4,772,600
[2]Add—India	...	...	...	...	...	...	...	...	26,700
								Total ...	4,799,300

[1] Based on the Fin. Dept. Resolution No. 1660 of March 20,1871.

[2] The item opposite to" India" in the above table is for the Calcutta University and for Prov. services (not including Public Works) in Coorg, Ajmere and other district under immediate administration of the Government of India.—Sir Richard Temple's Financial Statement for 1871-2.

University from the Provincial to the Imperial Budget.[1] To take account of the revision of charges for Official Postage,[2] and Bengal Police,[3] and the additions and withdrawals of services referred to above, the Imperial assignments to Provincial Governments for the year 1871-2 were further altered so that they stood as shown in the table on the preceding page.(Page 117)

Besides these assignments for the fiscal year 1871-2, the Government of India gave the Local Governments a special donation of £200,000 in the year 1870-1 in order that they "may be able to inaugurate the plan successfully, and to have as it were a fair start." Taking round numbers then, the several Provincial Governments had the following resources[4] at their disposal in the year 1871-2 to meet the expenditure incorporated in their budgets :—

Provincial Budget for	Resources		Total
	Receipts surrendered by the Imperial Government	Assignments from the Imperial Treasury	
	£	£	£
Oudh	14,700	211,300	226,000
Central Provinces	24,000	269,600	293,000
Burma	28,600	276,500	305,100
Bengal	264,800	1,197,900	1,462,700
N.W. Provinces	110,000	635,000	745,000
Punjab	67,400	528,800	596,200
Madras	81,890	752,300	834,100
Bombay	55,300	901,200	956,500

Having analysed the constitution of the Provincial Budgets and noted the receipts and charges incorporated into them, we will proceed to inquire into the peculiarity which marks their constitution as framed in 1870-1. No method of ascertaining this peculiarity would be more direct in its approach towards the question raised above than to ask ourselves what problem the framers of the Provincial Budgets were presented with and how it

[1] Letter from the Secretary to the Government of India, Finance Department, No. 1683 dated March 21, 1871.

[2] Finance Department Resolution No. 1659 of March 20, 1871.

[3] Finance Department Resolution No. 1587 of March 20, 1871.

[4] Financial Statement of 1871-2.

was solved. From our knowledge of the history of the controversy that raged over the creation of Provincial Budgets we can say that what items of expenditure to incorporate into Provincial Budgets was no longer a prominent question of the time. Long since it was settled that there were charges in the Imperial Budget of a purely local character. By common consent they were regarded as the most unsatisfactory part of the Imperial Budget. It was admitted on all hands that, knowing nothing about these charges, the Government of India was either obliged to sanction an unnecessary charge which may have been carelessly endorsed by the head of a department having no immediate interest in guarding against the waste of public money, or by a too cautious spirit of a random parsimony, or by parsimony regulated only by the state of public revenue, refuse its sanction and check prudent and profitable expenditure. As either procedure was likely to cause mischief, it was commonly agreed that such matters over which the Central Government by its supreme ignorance was powerless to exercise any control, should be transferred from the direct purview of the Imperial Government to the immediate control and responsibility of the Provincial Government. One side of the problem had thus been solved by sheer force of circumstances. The matter on which all attention was mainly concentrated was the problem of providing the Provincial Governments with funds sufficient to meet the charges incorporated into their budgets. It was allowed on all hands to be reasonable that the receipts arising from the incorporated services should be appropriated by the Provincial Governments. Two good reasons were advanced for adopting such a procedure. It is laid down as a canon of good finance that tax administration and tax appropriation should go as far as possible together. On this principle it was but proper to have allowed the Provincial Governments to appropriate the receipts from the services which they administered. But there was also another weighty reason which influenced this decision. The main idea in the inauguration of Provincial Budgets was to interest the Provincial Governments in a judicious and economical management of the finances, and one way of sustaining their interest in the same was to have given them the receipts of the services they managed. The receipts, however, were so small a portion of the total funds necessary to meet the provincialized expenditure that the problem of balancing the Provincial Budgets remained unsolved notwithstanding. Two possible ways of solution were before the Government of India at the time : either to transfer for provincial uses certain sources of Imperial revenue or to give a lump assignment from the Imperial treasury. It was difficult for a time to decide which was the more suitable of the two, for they were not only of unequal merits, but they made different appeals to the different parties concerned. To the Provincial Government assignment of revenues was preferable to fixed assignments as giving greater elasticity to their finances. To the Government of India, on the other hand, assignment of revenues seemed to be fraught with grave consequences. The past and the existing financial condition of India did not warrant the Central Government to alienate the sources of revenue it then possessed with equanimity and safety for the future. On the other hand, its prospective condition looked as precarious as its past, and it therefore desired to retain its control over the sources the mobilization of which alone could enable it to stave off any impending crisis. The second alternative, on the other hand, was just such a one as to give the provinces sufficient funds without the Government of India forfeiting its control over its resources. It must not be forgotten that the Government of India by reason of its constitutional position had the sole authority to manage and appropriate the revenues of India. Any solution for financing the provinces had therefore to be in accord with its interests as conceived by itself. This being the situation the method of assignments was adopted in preference to that of assigned revenues in solving the principal problem that arose in connection with the constitution of provincial budgets.

It is because assignment of funds from the Imperial treasury was adopted as a method of supply to balance the Provincial Budgets that the system instituted in 1871-2 has been characterized in this study as a system of Budget by Assignments.

This principle on which the Provincial Budgets were constructed in 1871-2 endured till 1876-7. The assignment made to the Provincial Governments for the year 1871 -2 had been declared to be fixed and recurring. Recurring they were, but fixed they were not; for, every year, since the start, the Government of India kept on adding to and withdrawing from Provincial Budgets items of charge already incorporated in them. In accordance with these modifications in the incorporated charges the Imperial assignments had to be either reduced or augmented as necessity dictated. The progressive changes in the assignments from 1871-2 to 1876-7 with the specific purposes for which they were granted are entered in the following tables :—

Statement of Imperial Assignments to the Provinces for the year 1871-72

Purpose of the Assignment	Amount Assigned Details	Amount Assigned Total
	Rs.	Rs.
Original Assignment		1,19,79,000
Add—		
For Cemetery establishments	4,000	
„ Compensation for Agra Brick Factory	28,000	1,14,000
„ Office and House Rent	82.000	
		1,20,93,000
Deduct—		
For transportation charges for convicts	15,000	
,, fees for licensing cargo-boats	2,600	1,24,690
,, receipts of public Works Departments	1,07,000	
		1,19,68,310
Special Grants		
Add—		
For Calcutta University	60,000	
„ Midnapore Civil Court Buildings	31,680	3,41,680
,, Calcutta Small Causes Court Building	2,50,000	
		1,23,09,990
Total Assignments for 1871-72 ...		1,23,09,990

Statement of Imperial Assignments to the Provinces for the year 1872-73

Purpose of the Assignment	Amount Assigned Details	Amount Assigned Total
	Rs.	Rs.
Original Assignment		1,19,79,000
Add—		
Permanent additions in 1871-2 (as above)	1,14,000	
For Miscellaneous services	2,67,070	3,88,936
,, books and publications	7,600	
,, ground-rent of Orphan School at Howrah ...	266	
		1,23,67,936
Deduct—		
Permanent deductions in 1871-2 (as above)	1,24,680	1,30,390
For repairing charges of University	5,700	
		1,22,37,546
Special Grants		
Add—		
For Burdwan Fever Relief	1,00,000	
Compensation for Sudder Court Building	4,00,000	9,66,670
Capital value of annual, rent of Rs. 21,000 for public offices	4,66,670	
		1,32,04,216
Deduct fractions		380
Total Assignments for 1872-3 ...		1,32,03,836

Statement of Imperial Assignments to the Provinces for the year 1873-74

Purpose of the Assignment	Amount Assigned	
	Details	Total
	Rs.	Rs.
Permanent Assignment for 1872-3 as above ...		1,22,37,546
Add—		
For payment of Medical Officers in charge of Civil stations	3,85,000	4,85,000
For Land Revenue Sub-divisional establishments ...	1,00,000	
		1,27,22,546
Deduct—		
Reduction of rent for public offices	21,000	21,000
		1,27,01,546
Sanctioned for 1873-4		1,27,01,000
Add for—		
Ground rent for Howrah Orphan School	266	
Charges on account of European vagrants	11,500	18,066
Ground rent charges	6,300	
Deduct—		
For pay of medical pupils withdrawn from provincial to Imperial.		5,400
		3,90,400
For pay of medical officers in charge of civil stations ... ... withdrawn from provincial to imperial.	3,85,000	
Special Grants.		1,23,28,666
Add—		
For rent of Small Cause Court		14 400
Total Assignment ...		1,23,43,066

Statement of Imperial Assignments to the Provinces for the year 1874-75

Purpose of the Assignment	Amount Assigned	
	Details	Total
	Rs.	Rs.
Permanent Assignment for 1873-4 as above ...		1,23,28,666
Add—		
Assignment for encouragement of Mohammedan education	50,000	50,000
Sanctioned assignment		1,23,78,000
Add—		
Grant on account of Model Farm	7,000	8,180
Additional grant for ground-rent	1,180	
		1,23,86,180
Deduct—		
Reduction of outlay on account of churches and burial grounds	14,314	
Reduction on account of Assam transferred	13,30,000	13,44,580
For ground rent Howrah Orphan School	266	
Total Assignment sanctioned ...		1,10,41,600

Statement of Imperial Assignments to the Provinces for the year 1875-76

Purpose of the Assignment	Amount Assigned	
	Details	Total
	Rs.	Rs.
Permanent Assignment for 1874-5 as above ...		1,10,41,000
Add—		
Grant for Botanical gardens	52,500	53,680
" " Ground rents	1,180	
		1,10,94,680
Deduct—		
Public Works charges on account of the Salt Department	13,683	
Assignments on account of lighthouses and ships withdrawn	1,769	33,163
Assignment on account of Town Improvement Fund of Assam		17,711
Total Assignment ...		1,10,61,517

Statement of Imperial Assignments to the Provinces for the year 1876-77

Purpose of the Assignment	Amount Assigned	
	Details	Total
	Rs.	Rs.
Original Assignment for 1875-6		1,10,41,000
Add—		
For ground rents	1,180	
" Botanical Gardens	52,500	53,680
		1,10,94,680
Deduct—		
Public Works charges for Salt Department		13,683
		1,10,80,997
Deduct—		
For Form Store Department	8,034	
Add—		6,034
For Exhibitions and Fairs	2,000	
Total ...		1,10,74,963
Assignment as sanctioned		1,10,75,000
Add—		
Grant on account of Bankee and Ungool Estates ...	3,271	
Cost of the snake-poison commission, establishments and contingencies.	6,000	58,753
Grant on account of census registers	49,482	
		1,11,33,753
Deduct—		
Assignment on account of lighthouses and lightships withdrawn.	1,769	
Assignment of Town Improvement Fund, Assam ...	17,711	22,180
Annual cost of lunatics transferred to Tezpore Lunatic Asylum.	2,700	
Total Assignment ...		1,11,11,573

This completes the account of the services incorporated from time to time and the assignments made for them by the Imperial exchequer during the period in which the system of budget by assignments remained in force. It now remains to consider whether the system under the assignment plan was a success. What constitutes success is a question which is always open to discussion, for what may seem successful from one point of view may be the reverse of it from another standpoint. A discussion, however, of this aspect of the question cannot be avoided, for it was on the results of one stage that an advance towards the second was made to depend all throughout the expansion of Provincial Finance. As the definition of success varies with the standpoints, we must first ascertain them for the purpose of our investigation. Let us therefore inquire into the possible parties whose standpoints counted in the moulding of Provincial Finance, and without whose satisfactory opinion about the results achieved, a new step in advance could not have been taken. The Government of India and the Provincial Governments were obviously the two principal parties. Naturally their standpoints were different, if not antagonistic. The question prominent in the mind of the Government of India was how big was the gain to the imperial treasury on the transfer. On the other hand, the Provincial Governments were concerned to know whether the resources offered by the Government of India were adequate enough for their safely accepting the responsibility of managing the incorporated expenditure. It is obvious the Provincial Governments would not undertake the responsibility of managing the Imperial expenditure within a certain assignment unless they were sure that the assignments were adequate. Similarly, the Imperial Government would see no advantage in making the transfer unless the Provincial Governments undertook to manage the expenditure at a sum less than what it cost under the direct management of the Imperial Government. Adequacy to the provinces and gain to the Imperial treasury were therefore the two chief considerations which prevailed in the determination of the continuance and expansion of the scheme. The people of the Provinces may also be conceived of as a third possible party whose concurrence may have been deemed a necessary factor in the situation. What their view-point would have been is not altogether a matter of guess. On the other hand, anyone sufficiently acquainted with the nature of popular demands for political advancement could easily imagine that the most urgent concern of the taxpayers would have been neither the well-being of the Imperial nor that of the Provincial Governments, but the distribution of the money they paid along the different channels of expenditure; and if their approval of the results of the scheme had been made a necessary condition of advance, it is probable that the development of Provincial Finance would have been along different lines.

There was a suggestion even at that time that the people of the country should have some voice in the financial arrangements of the country. In paragraph 19 of its Resolution of December 14, 1870, announcing the scheme of Provisional finance, the Government laid down that

> "Each local Government will publish its own Provincial Service Estimates and Accounts in the local Gazette, together with a financial exposition (which should, where possible, be made before the local Legislative Council) analogous to that annually made in the Legislative Council of the Governor-General."

If this suggestion had materialized, the Indian taxpayer would have obtained a voice in determining the financial arrangements between the Government of India and the Provincial Governments. There were, however, certain legal difficulties in the way of giving effect to this suggestion. If the Budget was introduced in the Council and debate had followed upon it, such a proceeding would have offended against Section 38 of the Indian Councils Act (24 and 25 Vic. c. 67) and would have, therefore, been illegal unles the Budget involved some proposal for tax legislation. For, that Act had provided that the activity of the legislative Council should not be called into play except for strictly legislative purposes. If, on the other hand, there was to be no debate, there was no advantage in this mode of giving publicity to the Budget which was not equally secured by its publication in the official Gazette. As a solution of these difficulties, the Government of Madras proposed[1] to the Government of India.

> "that the Provincial Budget should form a schedule to an Appropriation Bill, the contents of which would, after all the necessary explanation and discussion, be voted section by section."

But the Government of India, which had first broached the subject, was shocked by this suggestion as being revolutionary. In reply[2] it observed:—

[1] Letter to the Government of India, Finance Department, No. 147 of April 18, 1871.

[2] Legislative Letter to Madras dated July 11, 1871, No. 765.

"2. His Excellency in Council does not..... consider that the plan proposed..... for bringing the annual financial statement within the terms of the Indian Council's Act, would be appropriate or possible. The passing of the Appropriation Bill in the House of Commons is a proceeding by which authority is given to carry into effect the Resolutions of the House in Committee of Supply which till the passing of the Appropriation Bill are not law. The Bill enumerates every grant that has been made during the whole session, and authorizes the several sums voted by the Committee of Supply to be issued and applied to each separate service. It also contains a provision that the various aids and supplies shall not be issued or applied to any other uses than those mentioned.

"3. Such a proceeding would, His Excellency in Council considers, be out of place in India, and might have the effect of transferring from the Executive to the Legislative Council, the power of disposing of all public moneys. His Excellency, therefore does not consider that the introduction of an Appropriation Bill would be advisable."

Against this ruling the Government of Madras appealed to the Secretary of State[1] and pleaded that either the proposal of an Annual Appropriation Act be approved or

"such an alteration in the Council's Act be made as will allow the financial statement to be legally made and discussed in the Local Legislative Council."

But the Secretary of State upheld the decision of the Government of India[2] on the ground that

"such mode of procedure is only applicable in a representative assembly, which has full powers of control over the Executive, and any such powers Parliament has advisedly withheld from the Legislative Council of India."

The suggestion was therefore dropped and was not given effect to till 1921. As the voice of the people did not prevail[3] in the framing of the financial contracts between the Imperial and Provincial

[1] Letter from the Government of Madras, Financial Department, dated September 19, 1871, to the Secretary of State and the whole of the correspondence accompanying it.

[2] Legislative Despatch No. 4 to the Government of India, dated January 18, 1872.

[3] In fact the point that decentralization should not be extended unless it was followed by devolution of political and financial power on the representatives of the people was not specifically raised till 1908, and that too only by the late Hon. Mr. Gokhale in his evidence before the Royal Commission on decentralization of India, *q.v.*

Government, it is of no immediate advantage to seek for results that would have interested them to know, if they had been allowed their say in the matter. In so far then the results of the past influenced the policy of the future we have only to lay ourselves out to seek for results in which the two remaining parties to the contract were primarily interested, namely, gain to the Imperial treasury and adequacy to the Provincial Governments. Applying ourselves first to the test of adequacy to the provinces the results of the period may be gauged from the annual surpluses and deficits in the finances of each of the different provinces brought within the pale of the system of Provincial Budgets.

PROVINCIAL SURPLUSES AND DEFICITS

Province	1871-2	1872-3	1873-4	1874-5	1875-6	1876-7
	£	£	£	£	£	£
C.P. ...	20,988	—8,423	2,268	13,108	8,307	16,800
Bt. Burma ...	27,634	33,832	—9,922	—21,889	—5,471	5,100
Assam ...	...	...	...	5,159	590	9,833
Bengal ...	180,622	74,622	393,955	271,044	27,397	46,978
N.W.P. and Oudh	31,595	64,036	36,358	11,693	20,945	128,501
Punjab ...	109,828	28,008	—33,347	—117,644	—92,724	26,908
Madras ...	40,787	—19,264	—56,381	4,303	—14,210	504
Bombay ...	65,553	128,805	—64,373	9,929	—18,354	—140,718

Compiled from the annual Finance and Revenue Accounts of the Government of India for the respective years.

It is evident from these figures that the surpluses outnumber the deficits in frequency and magnitude to such an extent that the deficit could have been easily met from the accumulated balances without seriously exhausting them. Care, however, must be taken in explaining the cause of this apparent prosperity of Provincial Governments. Did the province succeed in building up their balances from the savings from the assignments and receipts made over by the Imperial Government is what we have to find out. The answer to this question cannot be given in a categorical form, for the total resources and changes to which the above figures refer include more than the receipts and assignments set apart for provincial management. Besides Imperial assignments and receipts of incorporated services they include a part of what hitherto were known as Local Funds. It must be recalled that long before the separation of provincial from

Imperial Finance there was created since the year 1855 a separation between the Imperial and Local Finance in British India. The Local Funds when separated were under the immediate management of the several Provincial Governments and comprised of two different classes : (a) those which by law or custom were required to be spent within the districts in which they were collected and on the specific objects for which they were collected; and (b) those collected all throughout the province and over the disposal of which the Provincial Government possessed unrestricted discretion. When the scheme of provincial Finance was inaugurated it was deemed natural to merge the second class of Local Funds into the Provincial Funds. The total addition made thereby to the provincial resources it is difficult to ascertain. But it ' was the opinion of Sir John Strachey, the Finance Minister of the time,[1] that such addition was " inconsiderable" and could not therefore have affected materially the financial consequences of the new system[2] .

The question of estimating the gain to the Imperial treasury need not detain us very long. The indirect gain due to the economical management of the services by the Provincial Governments will come for discussion when we come to consider the influences that played a prominent part in bringing about the second state in the evolution of Provincial Finance. The direct gain made by the Imperial treasury was effected throughout the retrenchment in provincial assignments already referred to. It may be recalled that the Government of India had planned to obtain relief to the extent of one million sterling annually on the services transferred,[3] but the Government of India soon realized that all this retrenchment would necessitate some taxation by the provincial authorities. The burden had already grown since the Mutiny, and being anxious not to add to it directly by Imperial levy or indirectly through provincial levies, it decided to reduce the relief it sought by lowering the retrenchment on provincial assignments from £ 1,000,000 to £350,000, or more accurately to £ 350,801 if we deduct, as we must, the sum of £ 19,199 restored to Burma, being its quota of relief owing to the special circumstances of that province.

[1] See his Minute, dated March 15, 1877, appended to the Financial Statement for 1877-8.

[2] This amalgamation was, however, abandoned with effect from 1876 to enable the Government of India to ascertain the financial consequences of the new system as compared with the old.

Summing up the results of the period, the Government of India, it must be said, realized full share of the benefits it had contrived to obtain by the annual relief of £330,801, though not without causing an insufficiency, however small, in the Provincial finance. But notwithstanding the burden thrown on the Provinces their position as disclosed by the results cannot by any means be called unhappy.

One unwelcome feature marred the inauguration of Provincial Finance. That feature consisted in the large increase in the levy of rates and cesses for purposes of local improvement.

***Receipts from New Resources of Income and Cesses enhanced since* 1870**

	1870-1	1871-2	1872-3	1973-4	1874-5	1875-6
	£	£	£	£	£	£
Oudh—						
Ord. cesses on :						
Land Revenue ...	38,813	29,018	34,354	34,259	33,208	33,146
Margin Fund ...	7,363	3,461	...	...	...	...
Local rate ...	...	36,810	42,535	42,883	41,097	41,461
Total ...	46,176	69,289	76,889	77,142	74,305	74,607
Assam—						
Ord. cess on land:						
Rev. Old Fund ...	6,506	4,333	711	1,916	17,149	...
New Fund ...	...	...	...	...	15,267	16,300
Total ...	6,506	4,333	711	1,916	32,416	16,300
Bengal—						
Road Cess Fund: ...	...		22,917	59,039	120,128	158,516
N. W. Provinces ...	168,532	201,548	216,818	213,672	215,968	150,619
Punjab ...	58,330	214,441	216,194	208,063	211,862	193,573
Madras—Road Cess ...	212,813	234,567	377,031	368,031	371,311	369,325
Madras—Tolls Cess ...	...	...	12,144	12,234	14,860	26,531
Grand Total ...	492,357	724,178	922,704	940,333	1,040,850	980,545

*Balances recovered from Bengal on account of Road and Government Estates Improvement Fund.

For the new resources of income and cesses given above, refer to *Papers, etc., on the extension of the Financial Powers of the Local Governments,* p. 494.

This shows an increase in 1875-6 over 1870-1 of £488,188, chiefly by raising the cesses in the North-West Provinces, the Punjab and the Madras Presidency to 6¼ per cent. on Land Revenue in the two last mentioned, to about 5 per cent, in the North-Western Provinces (after deducting the rural police charge); by a road cess in Bengal and by granting an assignment to Assam, at the Imperial charge, of 6¼ per cent. instead of 3 per cent. on Land Revenue pending the levy of a cess of a corresponding amount on the ryots. In the Bombay Presidency the 6¼ per cent. was imposed some years before and hence is not included in the above table. The only province which did not levy any additional cess was the Central Province, though a cess of 6¼ per cent, on the Land Revenue was in 1870 considered practicable but not opportune.

Of what benefit, a cynic may say, was the institution of Provincial Finance if it did not obviate the necessity for further taxation ? If further taxation was unavoidable, why did the Imperial Government throw the onus of facing it on the Provincial Government under the garb of Provincial Budgets when it would have done that itself ? It must be said in reply that the merits of Provincial Finance are to be looked for in other directions, and it will be shown in its proper place that they justified its institution, even though a certain amount of enhanced taxation followed in its wake. It would indeed be unwise to decry against taxation in general, for no benefit can be obtained without a charge. But it would be equally unjust not to protest against the kind of taxation resorted to, for what really mattered was not the increase of taxation but the inequity of taxation. The method of taxation resorted to to make up the deficit in the Provincial Finance was an imposition of rates and cesses on the already over-burdened class of tax-payers, namely the landholders. Now the services incorporated into the Provincial Budgets, for whose support these rates and cesses were levied, though called local, were not more local in the sense of their being beneficial to the particular localities than those retained by the Imperial Government. On the other hand, the former were from the standpoint of the localities as onerous to them as the latter, and yet they were financed by rates and cesses levied from the localities as though they were directly beneficial to them, which as a matter of fact they were not. This is all the more lamentable when it is recalled that the necessity for retrenchment which caused the levy of these rates and cesses was occasioned by the abolition of the income tax. As a matter of justice we should have expected the continuance of the income tax to the relief of the State and the ratepayers. But justice was for a long time absent from the Financial Secretariat of the Government of India. A few cared for it in the abstract, but none looked upon it as an element worthy of consideration in providing for the exigencies of provincial or local finance; and as it was unrecognized, its violation by the Provincial Governments was no bar to the development of Provincial Finance.

CHAPTER V

BUDGET BY ASSIGNED REVENUES

1877-78 TO 1881-82

The scheme of Provincial Budgets, the second stage of which we shall presently study, was launched not without mixed feelings. Boundless hopes were entertained, though not unmingled with a sense of misgiving. Just what was expected of the scheme may be correctly gauged from the remarks of Sir Richard Temple, who, when introducing the scheme in 1870, said :—

"We hope that this concession (of increased control over revenues and expenditure) will give the Local Governments an additional interest in the study and the enforcement of economy in expenditure; will afford them a just inducement to supplement their local receipts from time to time by methods either most acceptable to the people or least fraught with popular objection; will cause a more complete understanding to arise between the executive authorities and the tax-paying classes respecting the development of fiscal resources; will teach the people to take a practical share in the Provincial Finance, and lead them up gradually towards a degree of local self-government; and will thus conduce to administrative as well as financial improvement."[1]

While entertaining these hopes he also took the opportunity of asking the Council to be prepared for disappointment, for he went on to remark:

> "the hopes which I am expressing, however sanguinely, or confidently entertained, are after all but hopes, and like all other hopes may or may not be fairly realized. But let all this eventuate as it may, sure I am with certainty free from shade of doubt, that the measure is advantageous to the Imperial Budget of British India. For it will have the direct effect of definitely limiting, for the present, the expenditure from the general Exchequer on certain important branches of civil expenditure, the very branches indeed, where, from the progressive state of the age, the demands for increased outlet have most arisen,

[1] Annual financial statement for the official years 1860-1 to 1873-4, with Appendices : Calcutta, Office of the Superintendent of Government Printing, 1873, p. 348.

and in which from the nature of the case the supreme Central Authority is least able to check the requirements of the local authorities."

The actual results, however, far surpassed these very moderate hopes and were more than necessary to dispel the misgivings that still lingered in the minds of those who looked upon the institution of Provincial Finance as a project of doubtful utility. Confining ourselves to the issues immediately affecting the Government of India or the Provincial Governments, it was abundantly proved that Provincial management was more economical than Imperial management. If we compare the expenditure incurred upon the services while they were an Imperial charge with the expenditure on them after they were provincialized, the superior economy of provincial management is overwhelmingly proved.

Year	Total excess Expenditure on all Transferred Services except Registration over Total Receipts from them inclusive of all Contributions other than those for Bengal Famine under Imperial management	Year	Total excess Expenditure on all Transferred Services except Registration over Total Receipts from them inclusive of all Contributions other than those for Bengal Famine under Provincial management
	£		£
1863-4	5,111,297	1871-2	4,835,238
1864-5	5,606,248	1872-3	4,964,407
1865-6	5,587,779	1873-4	5,329,180
1867-8	5,821,438	1874-5	5,379,509
1868-9	6,030,214	1875-6Est.	5,135,677
1869-70	5,856,310		
1870-1	5,197,250		

Complied from an official volume of Notes on Imperial, Provincial and Local Finance, 1876.

It was therefore with confirmed belief in its utility and even with a sense of relief that the Government of India proceeded to incorporate into the Provincial Budgets additional services local in character or more amenable to local control. But these additions to the incorporated services made the problem of a supply of funds to Provincial Governments assume greater proportions. In the first period the gap between the receipts of incorporated services and the total charges for them was comparatively smaller than what it was found to be the case on the present occasion. The mode of bridging the gap entirely by assignments was deemed to be ill-fitted for the success of the scheme in its enlarged form. The most radical defect in the system of budget by assignment consisted in its rigidity. The provinces did not favour it as a mode of supply for the reason that while the outlay on the services under their management continued to expand the assignments made to them remained fixed in amount. Sir John Strachey, to whom belonged the credit of carrying the scheme a stage further, was particularly alive to this weakness of the system. In place of fixed assignments he desired to give the provinces certain sources of revenue, the yield of which largely depended upon good management. His primary object in doing this, no doubt, was to make better and more elastic provision for the growing needs of the provincialized services. But he had also another, and, as he conceived it, a far more important reason in the substitution for assignments of assigned revenues. That economy was the fruit of good management had by that time become a commonplace, but few were sure as to what good management consisted in. it was Sir John Strachey who, for the first time, defined in unmistakable language his notion of good management, which was since his time applied in an everincreasing degree in the development of Provincial Finance. To him good management of finance was to be had

> "not by any action which gentlemen of the Financial Department or by any other department of the supreme Government can take whilst sitting hundreds or thousands of miles away in their offices in Calcutta or Simla; not by examining figures or writing circulars, but by giving to the Local Governments...... a direct and, so to speak, a personal interest in efficient management."[1]

And in this he had the strong support of recent experience; for, taking the results of the past stage the provinces not only managed the services at a lesser cost to the revenue than was the case under the Imperial regime, but the services yielded increased revenue under the more immediate and fostering care of the provinces than they did under the remote, uninformed, and therefore impotent vigilance of the Imperial Government.

Sir John Strachey had long held to the view that so long as the Provinces collected the revenues *for* the Government of India they did not care to check evasion, which they would have surely done if they had collected them for their immediate benefit, or, as he put it,

> "when the Local Governments feel that good administration of branches of revenues will give *them,* and not to the Government of India alone, increased income and increased means of carrying out the improvements which they have at

[1] Financial Statement, 1877-8.

RECEIPTS FROM INCORPORATED SERVICES

Allocated Services	Under Imperial Management					Under Provincial Management				
	1865-6	1867-8	1868-9	1869-70	1870-1	1871-2	1872-3	1873-4	1874-5	1875-6
	£	£	£	£	£	£	£	£	£	£
Jails ...	89,260	96,910	141,218	133,806	128,773	149,888	195,755	271,915	297,198	326,023
Police ...	140,166	231,859	277,179	287,529	270,855	203,624	97,735	90,708	80,509	89,895
Education ...	53,256	66,869	67,207	72,848	60,740	76,789	80,869	101,306	99,537	101,909
Registration ...	86,997	127,070	153,488	165,048	147,152	155,262	171,735	121,470	172,111	184,461
Printing ...	3,333	3,282	2,803	3,718	9,244	10,923	14,383	21,174	18,220	18,066
Medical ...	...	...	...	...	3,273	20,594	30,649	36,370	43,097	26,583
Miscellaneous ...	4,070	5,666	4,076	4,489	6,116	20,991	31,345	32,396	39,666	36,234

Compiled from the same source referred to above.

heart, then, and not till then, was to be had the good administration that every one desired."

This evidence of the expanding receipts of provincialized services were therefore a pleasant surprise which went a great way in confirming the view he had advocated. It was therefore for a double purpose, of augmenting the revenues and of introducing elasticity in Provincial Finance, that Sir John Strachey substituted assigned revenues for assignments as a mode of supply to the provinces.

The plan adopted by Sir John Strachey was not new, neither was it brought forward for the first time. It was present in the minds of the people who took part in the discussions of Provincial Finance in 1870, and was actually advocated by Sir John Strachey as early as 1872.[1] That the Government of India did not look upon the plan with favour in 1870 was due to the fact that it was afraid to permanently alienate the sources of revenue on the growth of which its stability depended. By now, however, the financial position of the Government of India had a bit improved, and the six years' trial of provincial management had also engendered a greater confidence in the scheme in the minds of those who had never completely accepted the administrative utility of the project. To this was added the prospect of the plan being a means of increased productivity in their resources as it had been of increased economy in expenditure. The force of all these factors combined to bring a new stage in the evolution of Provincial Finance which, because of the distinct mode of supply adopted, may be well designated as a stage of Budget by Assigned Revenues.

To be sure, assignments still formed a part of the new system. But that was because of the difficulty of assigning such revenues the yield of which would have been precisely equal to the incorporated expenditure. Under any circumstances there was sure to be some difference. It happened that the normal estimated yield of the ceded revenues fell short of the requirements and the margin of difference had to be made up by some adjusting assignment in the case of each province.

The method of fixing the adjusting assignment for the different Provinces was on the whole a little too complicated, and may therefore be conveniently explained before proceeding to examine the constitution of the Provincial Budgets of the different Provinces as laid down under the second stage of their growth.

[1] See his Minute dated July 27, 1872.

It must be borne in mind that the total resources of the Provinces were made up under this system of (1) the receipts accruing from the incorporated services, (2) the yield of the revenues assigned, and (3) the adjusting assignment. How to fix upon an adjusting assignment for a particular Province was a question involving nice calculations. Before arriving at a definite figure for the adjusting assignments it was obviously necessary to have settled the normal yield of the receipts of incorporated services and of the revenues made over. The assessment of the normal yield was a contentious matter. As a rough and ready method the Government of India took the average yield of each over a series of years as the normal yield, and made it the basis from which to calculate the assignments. Similarly on the basis of the annual growth of the revenues in the past years it assumed a certain normal rate of increase for each of the sources, so that the normal for the succeeding years exceeded the normal for the preceding year at the normal rate of annual progression assumed. And as the normal yield of the assigned revenues increased at their assumed normal rate of growth the assignments fixed for the subsequent years diminished in like proportion. This normal rate of growth assumed for the assigned revenues was sometimes an assumption unjustified by their past productivity. At all events, as a higher rate of increase meant lessened assignments, the Provinces questioned its magnitude. To pacify the Provinces and to make due allowances for errors of estimating, the Government of India made a very ingenious concession. It agreed that if the actual results showed deviations from the estimated normal yield, either below or above, they should be equally divided between the provincial and Imperial Governments. If the actual yield was greater than the normal the adjusting assignment from the Imperial Government fixed for the year would be reduced by half the excess, and if it were less than the normal the assignment would be increased by half the deficit.

All this very delicate mechanism was adopted primarily for the advantageous manner in which it enabled the Government of India to adjust the assignments without undue hardship being inflicted on either party. But there was also another advantage which, though unperceived at the time, was none the less effective. The consent secured from the Provinces to bear half the burden of a possible deficit in the normal estimate directly put a premium on economical and judicious administration of the ceded revenues. If the Government of India had agreed to bear the whole of the deficit below the estimated normal, it is doubtful whether the Provinces would have exerted themselves sufficiently to develop their resources to such a degree as to bring their yield to the level of the normal. But the fear that their obligation to bear half the deficit might assume a larger proportion, which would undoubtedly be the case if there was a great falling off in the revenue, compelled them to bestow greater vigilance than they would otherwise have done. Whilst an effectual check on relaxation was thus provided the scheme was not wanting in a stimulus to exertion. The prospect of gaining half the excess over the normal gave a more direct stimulus to the Provinces to develop their resources beyond the normal than would have been the case if the total excess had been entirely appropriated by the Imperial Government. In short, the deterrent effect of a deficit to bear and the stimulating effect of a gain to reap made the mechanism of Provincial Finance as perfect as it could be made from the standpoint of economy in expenditure and productiveness in resources.

Having noted the factors that led to the conception and execution of this new step in Provincial Finance and the features which marked its novelty, we may now proceed to the study of the constitution of Provincial Budgets and the revenue and charges that were incorporated into them. Unfortunately it is impossible to present a conspectus of Provincial Budgets as a whole, for the charges were not uniformly incorporated in all the Provincial Budgets. Each Province was treated individually. This compels us to enter upon the analysis of the Provincial Budgets as they were reconstituted in 1877-8 separately for each of the different provinces.

North-Western Provinces and Oudh[1]

The budget of the Province was recast rather than enlarged by additions to the already allocated items, as was the case with regard to some other Provinces. In its new form the budget of the Province incorporated the following heads of expenditure and revenue:—

[1] Financial Department Notification No. 1807, Gazette of India, Part I, March 31, 1877, p. 172.

	Heads of Charges		Heads of Revenue
3.	Refunds of all Assigned Revenues.		
4.	Land Revenue (excepting settlements, allowances to district and village officers, and Bahbar estates and and special temporary compensations to covenanted civil servants in N.W.P.)	I	Land Revenue—collections from the Terai the Dudi estate in Mirzapore and from slone quarries.
6.	Excise	IV	Excise.
10.	Stamps.	IX	Stamps.
14.	Administration (excepting Account and and Currency Officers).		
16.	Law and Justice (excepting special temporary allowances to covenanted civil servants in N.W.P.)	XIII	Law and justice.
17.	Police.	XIV	Police.
19.	Education	XVI	Education.
21.	Medical (excepting the pay of Medical Officers in charge of civil stations).		
22.	Stationery and Printing.		
28.	Miscellaneous (excepting remittance of treasure and any unenumerated item exceeding Rs. 10,000).	XX	Miscellaneous (excepting "Gain by Exchange," "Premium on Bills," unclaimed Bills and unenumerated items exceeding Rs. 10,000 each).
	Public Works Ordinary; Roads and miscellaneous public improvements, civil buildings (except opium, post office and telegraph buildings) and tools and plants; also whole of the Public Works establishment of the P.W.D. excepting that in the Military works and irrigation branches; the imperial government paying towards their cost 20 per cent on the outlay from the imperial funds and works and repairs executed by the establishment.		*Public Works Receipt* such as appertained to the Public Works charges incorporated into the Provincial Budget.

In assigning the heads of revenue the Government of India added the proviso that

> "the Governments of North-Western Provinces and Oudh must surrender to the Imperial treasury half of any sum by which the net revenue from Excise, Stamps, and Law and Justice (omitting Jails and Registration), deducting Refunds under these heads and the charges under 6, Excise and 10, Stamps, exceeded Rs. 83,75,000"

and agreed to reimburse the province with a sum equal to half the deficit if the yield fell below the above sum. This adjustment was effected by operating upon the balances of the Province so that if the expenditure of the North-Western Provinces and Oudh upon the incorporated services exceeded the enumerated revenues plus any Provincial contribution in support of them by less than Rs. 83,75,000, the difference was to be added to; and if such excess expenditure was more than Rs. 83,75,000 the difference was to be deducted from the balances of the Government of the Northwestern Provinces and Oudh in the Imperial treasury.

Bengal

Items of Expenditure incorporated in the Bengal Budget	Grant as existing in 1877-8	Retrenchment	Proposed Consolidated Grant
3. Refunds of Revenue from Excise, Stamps, Law and Justice, and of Deposits.	4,91,000	...	4,91,000
4. Land Revenue (Collectors, Deputy Commissioners, etc. Establishments and charges on account of Land Revenue Collections).	22,62,000	...	22,62,000
6. Excise on spirits and drugs ...	2,92,000	...	2,92,000
8. Customs ...	6,93,000	...	6,93,000
9. Salt ...	39,000	...	39,000
11. Stamps ...	2,38,000	...	2,38,000
15. Administration (excepting Account Office, Allowances to Presidency Banks, Stationery Office at Presidency and stationery purchased in the country).	12,61,000	...	12,61,000
16. Minor Departments (excepting meteorological and archaeological departments, census and gazeteers).	1,68,000	...	1,68,000
17. Law and Justice (excepting Law Officers).	63,97,000	1,00,000	62,97,000
18. Marine ...	10,92,000	...	10,92,000
23. Political (Govt. House Police Guard).	7,000	...	7,000
26. Miscellaneous (excepting remittance of treasure).	25,000	...	25,000
Stationery and Stamps ...	4,98,000	50,000	4,48,000
27. Provincial allotment as now existing	1,10,59,000	4,40,000	1,06,19,000
Maintenance of Bishop's Palace, etc.	7,000	...	7,000
Total ...	2,45,29,000	5,90,000	2,39,39,000

The budget of the Province of Bengal[1] was enlarged rather than recast by additions to the already incorporated heads of revenue and expenditure. For the second stage of the scheme the Government of Bengal was made responsible for the charges shown in the above table.

[1] *Gazette of India,* Part I, March 31, 1877, p. 174.

To meet these charges the following revenues were handed over to Bengal for its use :—

ASSIGNED REVENUES (ooo omitted)

	Heads of Revenue	Estimated Yield in 1876-7	Estimated Yield at the assumed Rate of Growth				
			1877-8	1878-9	1879-80	1880-1	1881-2
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
IV	Exercise in spirits and drugs	6,300	6,400	6,500	6,600	6,700	6,800
VI	Customs (see, Customs Misc. and Warehouses and Wharf rents).	3,600	3,600	3,600	3,600	3,600	3,600
VII	Salt (Rents of Warehouses, fines and forfeitures and misc.).	220	220	220	220	220	220
IX	Stamps	10,300	10,575	10,850	11,125	11,400	11,675
XIII	Law and Justice						
XIV	Marine (pilotage receipts, registration and other fees and misc.).	1,091	1,084	1,084	1,084	1,084	1,084
XVI	Misc. (all except premium on bills, unclaimed bills, and any unenumerated item exceeding Rs. 10,000).	771	792	792	792	792	792
	Total ...	...	22,671	23,076	23,421	23,596	24,171

Complied from statements in the *Gazette of India* referred to above.

But as the revenues assigned were not sufficient for meeting the incorporated charges transferred, after taking account of the excesses over normal to be paid to the Government of India, the Government agreed to make the following assignments from the Imperial treasury to the Government of Bengal:—

Year				Assignments
				Rs.
1877-78	...	...	...	48,32,000
1878-79	...	...	...	44,57,000
1879-80	...	...	...	40,82,000
1880-81	...	...	...	37,07,000
1881-82	...	...	...	33,32,000

Central Provinces[1]

In the case of the Central Provinces the following additional items were incorporated in its budget:—

Heads of Charge	Grants as already fixed for 1877-78	Retrenchment	Proposed Net Consolidated Grants
	Rs.	Rs.	Rs.
Refunds of Excise, Stamp, Law and Justice and Miscellaneous.	47,000	...	47,000
Excise	52,000	...	52,000
Stamps	14,000	...	14,000
Land Revenue exclusive of settlement charges	6,66,000		
Administration (exclusive of Account and Currency Office).	3,39,000		
Minor Departments (exclusive of Meteorology and Archaeology).	4,000	90,000	17,74,000
Law and Justice	6,91,000		
Stationery and Stamps	69,000		
Miscellaneous (excepting Remittance of Treasure and Discount on Supply Bills.	5,000		
Add—			
Existing allotment for provincial ... services	27,73,000	...	27,73,000
Total Grant for Services to be borne upon the Central Provinces Budget.	46,60,000	...	45,70,000

To meet these charges the Government of Central Provinces was authorized to appropriate the yield of the following sources of revenue :—

Heads of Revenue Assigned	Estimated Yield in 1876-7	Estimated Yield at the Assumed Rate of Growth in		
		1877-8	1878-9	1979-80
	Rs.	Rs.	Rs.	Rs.
Excise	13,90,000	14,50,000	15,10,000	15,70,000
Stamps	9,70,000	9,75,000	9,80,000	9,85,000
Law and Justice	1,67,000	1,75,000	1,83,000	1,91,000
Miscellaneous (excepting Premium on Bills, undrawn Bills of Exchange and any unenumerated items exceeding Rs. 10,000 each).	7,000	7,000	7,000	7,000
Total ...	...	26,07,000	26,80,000	27,53,000

Compiled from the *Gazette* referred to above.

[1] *Gazette of India,* Part I, dated June 2, 1877, p. 274.

As these revenues were insufficient the Government of India undertook to supplement them by the following assignments from the Imperial exchequer:—

Year				Assignments
				Rs.
1877-78	...	...	...	19,63,000
1878-79	...	...	...	18,90,000
1879-80	...	...	...	18,17,000

These assignments were, however, subject to change because of the proviso applying to the assigned revenues. By virtue of that proviso the Government of India was to claim half the net increase of their combined annual yield over the estimated normal and was to bear half the deficit if their actual combined yield failed short of the normal. If there was an increase above the normal the assignments were to be reduced by a sum equal to half the increase, and if there was a decrease the assignments were to be increased by a sum equal to half the decrease.

Bombay

Coming to the Provincial Budget[1] of the Bombay Government we find the following charges were incorporated in it:—

Heads of Charge	Grant as already fixed for 1877-8	Retrench-ment	Consolidated Grant
	Rs.	Rs.	Rs.
3. Refunds	1,10,000		
4. Land Revenue	65,07,000		
6. Excise	80,000		
7. Customs	8,09,000		
8. Salt	5,69,000		
14. Administration	11,43,000		
15. Minor Departments	1,13,000		
16. Law and Justice	43,12,000	5,67,000	2,13,96,000
18. Marine	31,000		
20. Ecclesiastical	3,25,000		
21. Medical	2,68,000		
22. Stationery and Stamp	2,29,000		
24. Allowances and Assignments ...	64,81,000		
26. Superannuation allowances	8,00,000		
28. Miscellaneous	28,000		
Add—			
Existing allotment for provincial services	1,04,54,000	...	1,04,54,000
Total ...	3,24,17,000	5,67,000	3,18,50,000

[1] *Gazette of India,* Part I, dated August 4, 1877, p. 468

Besides the receipts accruing from the already incorporated services the Government of India assigned to the Government of Bombay the following sources of revenue :—

ASSIGNED REVENUES (ooo omitted)

Heads of revenue assigned	Esti-mated Yield in 1876-77	Estimated Yield at the Assumed Rate of Growth in				
		1877-8	1978-9	1979-80	1880-1	1881-2
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
I Land Revenue (receipts of Inamdari adjustments and service commutations).	5,199	6,624	6,624	6,624	6,624	6,624
IV. Excise	3,946	4,000	4,100	4,200	4,300	4,400
Stamps	4,186	4,300	4,350	4,500	4,550	4,600
Law and Justice	277	270	270	270	270	270
Total ...	...	8,570	8,720	8,970	9,120	9,270
Miscellaneous (excepting gain by exchange, premium on Bills, and on Money Orders, lapsed Money Orders, Sales, Proceeds of Durbar Presents and unenumerated items—exceeding Rs. 10,000 each).	52	70	70	70	70	70
Total ...	...	15,264	15,414	15,664	15,814	15,964

Compiled from the *Gazette of India*.

The adjusting assignments to cover the difference between the expenditure and revenue incorporated in the Bombay Budget were as follows :—

Year				Assignments
				Rs.
1877-78	...	...	...	1,53,20,000
1878-79	...	...	...	1,51,70,000
1879-80	...	...	...	1,49,20,000
1880-81	...	...	...	1,47,70,000
1881-82	...	...	...	1,46,20,000

These assignments, it must be noted, were subject to the same proviso as obtained in the case of the Central Provinces.

Punjab

The only remaining Provincial Budget that was framed on the principle of assigned revenues was that of the Punjab.

The heads of charge incorporated in this budget were as hereinafter specified—

Heads of Incorporated Expenditure	Grant as Settled for 1877-8	Retrench-ment	Proposed Net Consolidated Grant
	Rs.	Rs.	Rs.
Refunds	65,000		
Land Revenue, exclusing settlement charges ...	16,21,000		
Excise	58,000		
Stamps	72,000		
Administration (excluding Account and Currency Offices and settlement Secretary).	9,74,000		
Minor Departments	16,00,000	2,24,000	51,38,000
Law and Justice	20,94,000		
Superannuation and Retired Allowances, Compasionate Allowances and Gratuities.	3,38,000		
Miscellaneous, excluding Remittances of Treasure.	41,000		
Stationery and Stamps	83,000		
Add—			
Existing allotments for provincial services ...	54,22,000	...	54,22,000
Total ...	1,07,84,300	2,24,000	1,05,60,000

To defray these charges it was proposed to assign the following revenues to the Government of the Punjab :—

Heads of Revenues Assigned	Net Revenue in 1876-7	Estimated Net Yield in		
		1877-8	1878-9	1879-80
	Rs.	Rs.	Rs.	Rs.
Assessed Taxes	...	...	12,00,000	12,00,000
Stamps	...	24,85,000	25,05,000	25,25,000
Law and Justice	...	4,15,000	4,15,000	4,15,000
Excise	...	10,30,000	10,50,000	10,70,000
	...	39,30,000	39,70,000	40,10,000
Miscellaneous (excluding gain by Exchange, premium on Bills, and unclaimed Bills of Exchange).	...	60,000	60,000	60,000
Total ...	...	39,90,000	52,30,000	52,70,000

In making over these revenues the Government of India had reserved to itself a share of the improvement in the net yield from Stamps, Law and Justice, and Excise. The estimated net yield having fallen short of the estimated expenditure the Government of India agreed to make the following assignments to the Government of the Punjab in order to restore balance in its budget:—

Year	Assignment	Less Share of Improvement in Net Revenue from Excise, Stamp, Law and Justice	Net Assignment
	Rs.	Rs.	Rs.
1877-8	65,70,000	107,000	64,63,000
1878-9	53,40,000	85,000	52,55,000
1879-80	53,10,000	...	53,10,000

It should be noted that the Government of Madras refused to undertake the responsibility of a provincial Budget based upon the new principle of assigned revenues. It preferred to remain on the old basis. Provincial Budgets of Assam and Burma are not included in this chapter. As the principle involved in their constitution appertains to the study undertaken in the following chapter it is deemed expedient not to include them in the present.

Before closing the study of the second stage in the development of Provincial Budgets it is advisable to take stock of the results achieved during its prevalence from the standpoint of sufficiency to the Provincial Governments and gain to the Imperial exchequer. The following is illustrative of the results of this stage from the standpoint of sufficiency to the provinces :—

Provinces	Annual Surpluses or deficits				
	1877-8	1878-9	1879-80	1880-1	1881-2
	£	£	£	£	£
C.P.	5,992	7,049	—28,133	2,956	95,221
Bengal ...	173,380	158,932	82,523	—11,313	255,189
N.W.P. and Oudh ...	4,469	237,100	320,729	280,790	667,613
Punjab ...	18,578	48,195	7,017	59,497	135,979
Bombay ...	—609,672	61,249	—11,201	37,855	418,783

Compiled from the Finance and Revenue Accounts of the Government of India.

From this it is clear that except in Bombay the funds provided by the Imperial Government proved not only sufficient for the purpose of carrying on the services incorporated in the Provincial Budgets, but were such as to afford a safe margin of revenue over expenditure. That the provinces had enough and to spare is clearly proved by the assistance which they gave without much detriment to their finances to the Imperial Government in the years 1879-80 and 1880-1. In the year 1879 the financial position of the Imperial Government had become rather critical. The fall in the value of the rupee and the commencement of hostilities with the Afghans were expected to bring about a deficit estimated in 1879-80 at £ 1,395,000. As the first line of defence the Government of India urged on the several Local Governments and Administrations the necessity of reducing the ordinary expenditure of the country within the narrowest possible limits and directed that measures for suspending or postponing all optional expenditure, whether Imperial, Provincial, or Local, should be adopted forthwith and that no proposals for increase of salaries or establishments should be entertained without real necessity.[1] As a second line of defence the Government of India ordered that until further—

> "arrangements could be settled with the Local Governments... no new work estimated to cost more than Rs. 2,500 shall be commenced at the cost of the Imperial or Provincial Funds, even though it may already have received the sanction of the Government"[2]

and decided to make large reductions in the expenditure on productive public works. When it was discovered that these restraints on expenditure were not enough to bring about an equilibrium in the Imperial Budget the Government of India adopted a plan of levying benevolences on the provincial balances as a better alternative to increased, taxation. It was, of course, an abrogation of one of the most fundamental conditions of Provincial Finance that the Provincial Balances, though in possession of the Imperial Government, were a sacred trust to be released only when required by the provinces. But the solvency of India was deemed to be more sacred than the sanctity of the terms of Provincial Finance. Accordingly the following sums were appropriated by the Imperial Government from the balances of the provincial Governments :—

[1] Resolution of the Financial Department, No. 4063, dated November 9, 1878.

[2] Finance Department Resolution of May 1, 1879, *Gazette of India,* Part I, May 3,1879, p. 329.

Province	Contributions to the Imperial Government		
	1879-80	1880-1	Total in Lakhs.
	Rs.	Rs.	Rs.
N.W.P.	10	10	20
N.W.P.	7½	7½	15
Bombay	4	4	8
Punjab	3	3	6
Burma	3	3	6
Central Provinces	2½	2½	5
Madras	2	2	4
Assam	1½	1½	3
Total ...	33½	33½	67

These contributions were repaid in 1882-3; but for the time being they were in effect a gain or at least a relief to the Imperial treasury. The real gain to the Imperial treasury consisted in the retrenchments made in assigning allotments for services transferred to provincial management. The amount of retrechment secured in the case of each of the provinces may be summarized as follows :—

Province		Retrenchment
	Rs.	
N.W. Provinces ...	3,54,000	5 per cent. of the total allotment.
Oudh	73,000	,, ,, ,,
Bengal	5,90,000	,, ,, ,,
Central Provinces ...	90,000	,, ,, ,,
Bombay	73,000	,, ,, ,,
Punjab	2,41,000	,, ,, ,,

This does not exhaust the total gain reaped by the Imperial Government. Two other ways of gain must also be mentioned along with this. It should be borne in mind that by taking the standard yield of the assigned revenues at a level higher than what was justified by their history, the Government of India was able to assign reduced sums for the provincial services than what it would have been required to do if the standard yield had been fixed at a lower level. This reduction in assignments owing to abnormal estimates of the ceded revenues was a direct gain. The excesses above the standard also opened additional possibilities of gain owing to the clause governing the cessation of revenues, although it must be recognized that under the same clause the Government of India stood to lose in the eventuality of the actual revenue falling below the standard. How much it gained from, these conditional channels of gain it is difficult to say. On the whole, it cannot be denied that the gain to the Imperial treasury was substantial.

Thus the results show that the scheme of Provincial Finance on the basis of assigned revenues was a success both from the standpoint of the Provincial and Imperial Governments, so that they agreed mutually to make a further move in the development of the scheme which constitutes its third stage.

●●

CHAPTER VI

BUDGET BY SHARED REVENUES

1882-83 TO 1920-21

At every step in the direction of enlarging the Provincial Budgets the crucial question, as has already been pointed out, was with regard to the difficulties of balancing the revenues and charges proposed to be incorporated therein. The two steps heretofore taken, one in 1871 and another in 1877, in the direction of the evolution of Provincial Finance, were marked by two distinct methods of balancing the Provincial Budgets. On the former occasion the Imperial Government supplied the Provincial Governments with fixed lump sum assignments from the Imperial treasury. On the latter occasion this mode of supply was partly replaced by assigning certain sources of revenue for the use of provincial Governments. The plan of assigned revenues, though it went a great way to remove the most serious defect of the measures of 1871-2, which transferred to the Local Governments the responsibility of meeting charges which had an undoubted tendency to increase, with income which, although not quite fixed, had little room for development, fell short of the requirements of Provincial Finance from the standpoint of elasticity. Superior to those of 1871 though they were, the measures of 1877 were so short of the fullest requirements of elasticity in finance that the Government of Madras refused to accept the enlarged scheme and preferred to abide by the arrangements of 1871. The scheme of 1877 was not offered to Burma or Assam. But when the Government of India made such an offer in 1879 it was obliged to turn over a new leaf, for, though the difficulty of meeting expanding charges with fixed assignments was overcome in some of the provinces by economy and good management, it was considerably felt by the province of Burma. The expenditure of the province in the seven years preceding the scheme of Provincial Finance aggregated to Rs. 1,98,45,970, while the assignments for the following seven years, aggregated apart from special additions, Rs. 2,20,22,770, showing an excess of Rs. 21,76,800, in all or about 3 lakhs a year. But the expenditure during the same period amounted to Rs. 2,40,77,885, being an excess of Rs. 42,31,915 in all or about 6 lakhs a year. The difference therefore between the excess assignment of 3 lakhs, and the excess expenditure of 6 lakhs a year, had to be made good by the Imperial Government by special grants averaging $2^{3}/_{4}$ lakhs every year to maintain the solvency of the Province.[1] The Government of India while making the supplementary assignments was not unconscious of the demoralizing effect of such doles. In fact it was admitted that it would have been much better to have augmented the provincial assignments to Burma by 22½ lakhs at the start had it foreseen the necessity for it, than to have been obliged to grant an equal amount in the form of supplementary aids so detrimental to economy and good management. The experience of Burma had driven home the fatuity of assignments as a mode of supply and the Government of India had realized that elasticity in revenues was a vital condition for the success of Provincial Finance. To assign revenues to Burma was therefore inevitable. Being overborne by the needs of the Province and by the fact that the Province yielded a substantial surplus to the Imperial treasury, the Government of India conceded that the Province was "entitled to have its real wants supplied more liberally than heretofore."[2] It is in the method adopted for the purpose of giving a liberal treatment to the province of Burma that the new step in the method of supply to the Provinces was taken. In the settlements made in 1877-8 with the five Provinces—Central Provinces, N.W.P. and Oudh, the Punjab, Bombay and Bengal—the Heads of Account under Revenue and Expenditure comprising the Indian Budget were grouped under two distinct categories : (1) wholly Imperial and (2) wholly Provincial. But in the case of Burma the Heads of Account were grouped under three distinct categories : (1) wholly Imperial, (2) wholly Provincial, and (3) jointly Imperial and Provincial.[3] In so far as items of revenue and expenditure were in the exclusive keeping of the Imperial or the Provincial Government, the settlement did not differ in spirit from that obtaining in other provinces. The difference consisted in carving out a third category of Account to be made of *jointly Imperial and Provincial.* By it certain revenues

[1] Finance Department Resolution No. 1488 dated March 26, 1879, para. 2.

[2] *Ibid.,* para. 22.

[3] Financial Statement, 1879-80, para. 24.

and charges were marked off from the rest and were shared between the Imperial and the Provincial in some definitely fixed proportion. The object of the arrangement was to replace rigidity in the Provincial revenues by elasticity. In the finances of the other Provinces there was elasticity in so far as their assignments were replaced by assigned sources of revenue. But to the degree in which their revenues were made up of fixed assignments their finances inevitably suffered from rigidity. In the case of Burma, however, the substitution of shares of growing revenues for fixed assignments gave complete elasticity to the Provincial revenues without which it had become so difficult to shoulder the responsibility of meeting expanding charges.

In recasting the framework of the Provincial Budget of Burma on the principle of shared revenues, all the heads of receipts and charges were made wholly Provincial, with the exception of the following, which were treated as wholly Imperial :—

(1) The Army	Receipts	and	Charges.
(2) Post Office	”	”	”
(3) Telegraph	”	”	”
(4) Account Department ...	”	”	”
(5) Meteorological Department ...	”	”	”
(6) Political	”	”	”
(7) Remittance of Treasure and Premium on Bills of Exchange and unclaimed Bills of Exchange.	”	”	”

The third category of revenues and charges, namely, jointly Imperial and Provincial, covered the following items :—

(1) Land Revenue, including capitation tax, but excluding Fisheries, with such Land Revenue Refunds, charges of collection and settlement as cannot be attributed to Fisheries only.

(2) Forest revenue. Expenditure and Refunds.

(3) Export Duty on rice, and Refunds.

(4) Salt Revenue, Expenditure and Refunds.

Items comprising the third category were divided between the Imperial and Provincial Governments in the proportion of five-sixths to the former and one-sixth to the latter. By adopting this method of supply Burma, unlike other provinces, secured funds of an elastic character, for, even though the shares remained fixed the amount they brought in in any one year varied with the variation in the total yield of the revenues assigned or shared. Of course everything depended upon how Burma nursed the revenues delegated to its control. But if it did its duty, unlike the other provinces, its labours were not to be unrequited.

The same principle of shared revenues was applied to the province of Assam, which had hitherto continued on the old basis of 1871. Although the settlement with that Province had been made after that with Burma had been carried out, the principle of shared revenues as a mode of balancing the Provincial Budget was not adopted on any appreciable scale. The reason for this break in the progressive realization of the principle is not to be attributed to any spirit of hesitation on the part of the Government of India, but is to be ascribed mainly to the necessity of the case. As it was contemplated to reincorporate the province into Bengal it was deemed expedient to frame the Provincial Budget of Assam on the same plan as that of Bengal so that their financial fusion might be as easy as the administrative. Thus the heads of revenue and expenditure which were provincial in Bengal since 1877 were also made provincial in Assam in 1879, including "Law Officers," which for temporary reasons were reserved as Imperial in Bengal. The only point at which the new principle was applied consisted in making the Land Revenue head in Assam a joint head to be shared by the Imperial and the Provincial Governments in the proportion of four-fifths of its net yield to the former and one-fifth to the latter.[1]

The beneficial results of the new settlement with these two Provinces are easily to be seen from the following comparative table of the estimates of their budgets as prepared on the old basis and as recast on the new :—

000 omitted

	Assam Budget Estimates				Bt. Burma Budget Estimates			
	Old Basis		New Basis		Old Basis		New Basis	
	1878-9	1879-80	1878-9	1879-80	1878-9	1879-80	1878-9	1879-80
	£	£	£	£	£	£	£	£
Revenue ...	2115	2110	3657	3596	4013	4078	9459	9673
Expenditure ...	2253	2261	3480	3566	4169	5111	8926	10119
Surplus ...	...	...	177	30	...	...	533	...
Deficit ...	138	151	...	...	156	1033	...	526
Closing Balance ...	206	55	521	555	873	161	1562	1436

From the Resolution of the Government of India in the Department of Finance and Commerce, No. 1249, dated March 13, 1879.

[1] Finance Department Resolution No. 1598, dated April 17, 1879.

Once the new principle of shared revenues was established in the case of Burma and Assam it was not possible for the Government of India to withhold its application from the other Provinces. The settlements made in 1877 with the several Provinces were not only of short duration but were also of unequal durations. It was only in the case of Bengal and Bombay that the settlements were made for five years commencing from 1877-8. In the case of the Central Provinces and the Punjab the period fixed was three years, while in the case of the North-Western Provinces it was as short as two years, from 1877-8. It is evident from this that the settlements with some other Provinces were to have expired soon after those with Burma and Assam had been completed, and would have required to be reconstituted on the basis of shared revenues. The Government of India, however, delayed the process, and in that it did wisely, for it was too soon to make the new principle of shared revenues and charges a basis for universal application. It was nothing but prudent to have regarded it as it were in its experimental stage. Secondly, the disadvantages of the *ex-parte* treatment of the Provincial Budget had come to be realized. It then dawned upon the Government of India that the several provincial Budgets were only parts of an organic whole, viz., the Imperial Budget, and it was manifestly inadvisable to frame the Provincial Budgets each by itself without regard to the claims, needs and exigencies of all others. But in order that this comparative and compromising operation of judging the claims of one in the light of the needs of others be performed with the desired effect of treating the different provinces in an equitable manner, it was essential that all the Provincial Budgets be dealt with simultaneously. The importance of this consideration and the desire to gain time in order to profit by the experiences of Burma and Assam led the Government of India with the consent of the Provincial Governments to extend or shorten, as the case may be, the duration of their financial agreements with the Provinces so as to bring about a synchronous expiry of them all on March 31, 1882.

Financial Settlements of 1882-3

The new settlements made with all the provinces with effect from 1882-3[1] were marked by an extension of the principle applied to Burma since 1878. Certain heads, as few in number as possible, of revenues and charges were wholly, or with minute local excep-

[1] Resolution of the Government of India in the Department of finance and Commerce, No. 3353, dated September 13, 1881.

tions only, grouped as Imperial. Others were classed as wholly Provincial. The remaining were placed in an intermediate category designated as joint and were in most part shared equally between the Imperial and the Provincial Governments. In those cases, however, where the provincialized expenditure exceeded the resources from the provincialized as well as the shared revenues, the balance instead of being provided as heretofore by fixed assignments from the Imperial exchequer was rectified for each Province by a fixed percentage on its land revenue—a wholly Imperial head of revenue except in the case of Burma, where the percentage was extended to the Imperial rice export duty and salt revenue as well.

Along with the enlargement of the scheme of Provincial Finance in 1882 the Government of India was also anxious to introduce simplicity and uniformity in the matter of grouping the different heads of revenue and expenditure under the three catgegories now established. It will be remembered that the agreements effected in 1877 were marked by diversity and intricacy. The same charges were not provincialized in all the Provinces. A charge which was Provincial in one was Imperial in another. Again, in transferring charges a grant was often broken up so that a part was made Provincial and a part reserved as Imperial. On the revenue side the arrangement was not a little intricate. The computations owing to the proviso in respect of the assigned revenues made the calculations far from simple. Both these defects were, however, removed when the settlements were framed in 1882, and it is to indicate what heads of revenue and expenditure were provincialized, what were imperialized, and what were divided and to what extent, that the following attempt is made.

Revenues

		Imperial	Provincial
1	Land Revenue	The whole except as entered in the Provincial Column.	In *Burma,* fisheries; in the *N.W.P. and Oudh* collections from the Terai, Bhabar and Dudhi Estates, Rents of Water-Mills and Stone Quarries; in *Bombay,* Rents of Resumed Service Lands and Service Commutations. In all Provinces, a fixed per-

Revenues—*Contd.*

		Imperial	Provincial
			centage on the Imperial land revenue to cover the difference between Provincial Revenue and Provincial Expenditure.
II	Tributes	The whole.	Nil.
III	Forest	Half.	Half.
IV	Excise	Do.	Do.
V	Assessed Taxes	Do.	Do.
VI	Provincial Rates	Nil.	The whole.
VII	Customs	All except as entered in the Provincial Column.	All items other than Customs Duties; and, in *Burma* only, the same percentage on Export Duties as on the Land Revenue.
VIII	Salt	All except as entered in the Provincial Column.	All items other than Duty on Salt and sale of Salt; and, in *Burma* only, the same per centage on the salt Revenue as on the Land Revenue.
IX	Opium	The whole.	Nil.
X	Stamps	Half.	Half.
XI	Registration	Do.	Do.
XIII	Post Office	Nil.	The whole.
XIV	Minor Departments	Do.	Do.
XVI	Law and Justice	Do.	Do.
XVII	Police	Do.	Do.
XVIII	Marine	As at present.	As at present.
XIX	Education	Nil.	The whole.
XX	Medical	Do.	Do.
XXI	Stationery and Printing.	Nil.	The whole.
XXII	Interest	All except as entered in the Provincial Column.	Interest on Government securities (Provincial).
XXIII	Pensions	Book transfers from the Military and Medical Funds and subscriptions to these Funds.	The remainder.
XXIV	Miscellaneous	Gain by Exchange on Imperial transactions, Premia on Bills and unclaimed Bills of Exchange.	The remainder.
XXV	Railway	As at present.	Whatever is now provincial in each Province.
XXVI	Irrigation and Navigation.	Do.	Do.
XXVII	Other Public Works	Receipts from Military Works.	The remainder.
XXXI	Gain by Exchange on Transactions with London.	The whole.	Nil.

Expenditure

		Imperial	Provincial
1	Interest ...	The whole except as entered in the Provincial Column.	Interest on local Debenture Loans. 4½ per cent. on the capital cost to the commencement of the year, and 2½ per cent. on the capital cost during the year, of all Public Works, whether classified as *Productive Public Works* or not, of which Capital and Revenue Accounts are kept: excepting, always any portion of their cost supplied from the Provincial Revenues or by Local Debenture Loans. The rate of interest on the cost of *Protective Public Works* will be the subject of a special agreement.
2.	Interest on Service Funds and other Accounts.	Interest on Service Funds and deposits in Savings Banks.	The remainder.
3.	Refunds and Drawbacks	Of the Imperial share of revenues.	Of the Provincial share of revenues.
4.	Land Revenues ...	The same percentage on charges for collection of Land Revenue and on the cost of Surveys (including expenditure hitherto charged in the Accounts of the Central Government) and Settlements elsewhere than in *Bombay* and *Madras,* as is retained of Land Revenue.	The remainder.
5.	Forest ...	Half.	Half.
6.	Excise ...	Do.	Do.
7.	Assessed Taxes ...	Do.	Do.
8.	Provincial Rates ...	Nil.	The whole.
9.	Customs ...	Do.	Do.
10.	Salt ...	In *Madras* the whole. Elsewhere the purchase and manufacture of salt; and in *Bengal* the cost of preventive lines and operations; in *Bombay* charges connected with the administration of Salt Revenue in Portuguese India.	The remainder.
11.	Opium ...	The whole.	Nil.
12.	Stamps ...	Half.	Half.
13.	Registration ...	Half.	Half.
15.	Post Office ...	Nil.	The whole.
16.	Telegraph ...	Do.	Do.

Expenditure—*contd.*

			Imperial	Provincial
17	Administration	...	Account and Currency Offices and allowances to Presidency Banks.	The remainder.
18	Minor Depts	...	Archaeological and Meteorological Depts., Census, Gazetteers and Statistical Memoirs.	The remainder.
19.	Law and Justice	...	Nil.	The whole.
20.	Police	...	Frontier Police and Police employed on Imperial State Railways on Salt preventive duties.	The remainder.
21.	Marine	...	Whatever is now Imperial.	Whatever is now Provincial.
22.	Education	...	Do.	Do.
23.	Ecclesiastical	...	The whole.	Nil.
24.	Medical	...	Nil.	The whole.
25.	Stationery and Printing		Stationery purchased for Central Stores.	The remainder, including cost of stationery obtained from Central Stores.
26.	Political	...	The whole.	Nil.
27.	Allowances and Assignment.		The whole except as in the Provincial Column.	In *Bombay,* items now Provincial.
28.	Civil Furlough and Absentee Allowances.		The whole.	Nil.
29.	Superannuations	...	Items not provided for in the A Provincial Column.	pensions and gratuities, except pensions payable from the Military and Medical Funds brought to account in India; each Government being responsible for pensions and gratuities which it now pays, or hereafter grants or recommends, however earned and wherever paid.
30.	Miscellaneous	...	Remittance of treasure, and discount on Supply Bills.	The remainder.
31.	Famine Relief	...	Secondary liability.	Wholly Provincial.
32.	Railways	...	As at present.	Whatever is now Provincial.
33.	Irrigation	...	Do.	Do.
34.	Other Public Works	...	Military Public Works, and except in *British Burma,* Offices of the Supreme Government; Works in the Salt, Opium, Post Office, Imperial Telegraph and Ecclesiastical Depts. and Mint and Currency Offices; and Bengal Surveyor General's Offices.	The remainder.
38.	Loss by Exchange	...	The whole.	Nil.

On the transactions of 1881-82 the Government expected to gain £ 470,000 a year. Of this sum, however, it returned to the Central Provinces £ 77,900, for improving the position of the subordinate civil services and other general purposes; to Madras, £ 20,000, for provincial public works; and to the N.W.P. and Oudh, £326,000, of which £ 10,000 was for additional Kanungoes in Oudh, and the remainder, £ 316,000, for a remission of local taxation. Besides these benefactions the Government of India gave for a favourable start to Bengal, £ 285,000; Burma, £20,000; N.W.P., £ 55,000, to be added to their balances before the close of the year 1881-2. These benefactions, which amounted to £ 496,000 a year, were expected to turn the annual gain of £ 470,000 into an annual loss of £ 26,000 to the Imperial exchequer.[1]

In this connection it must also be recalled that the Government of India reimbursed the Provincial Governments of the amount of the benevolences it had levied on them in the years 1879-80 and 1880-1. But not long after the revision of 1882 the financial position of the Government of India, which had permitted of such a liberal treatment, suffered a reverse, and the necessity for levying benevolences on the balances of the Provincial governments reappeared in 1886-7. In presenting the financial Statement for that year the Finance Member of the Government of India argued :—

> "22. Since the estimates for 1885-6 were presented...... Indian administration and finance have entered on a new phase. The brief period of rest which the country had enjoyed since 1882 had drawn to a close...... By the events of the late years in Central Asia, India finds herself almost in contact with one of the great European Powers, and she cannot hope to escape the necessity which the position imposes on her of increasing her military strength. Events impending have occurred which have changed, as it was known they must change, the face of our estimates, and have thrust us violently out of the peaceful path of internal progress in which we had hoped to have been left undisturbed."

Among the other means employed to weather the storm the Government of India resorted a second time to nibbling at the provincial resources, and gathered a sum of £400,000 in the year 1886-7 by appropriating from their balances the above amount.

[1] Financial Statement for 1882-83, p. 15.

The condition of Provincial Finance during this period may be summarized in the following table :—

Provinces	Annual Surpluses and Deficits				
	1882-3	1883-4	1884-5	1885-6	1886-7
	£	£	£	£	£
C.P. ...	33,775	76,212	18,047	22,080	115,656
Burma ...	171,207	—90,030	—89,725*	†	71,743‡
Assam ...	13,887	—5,216	—40,577	25,299	28,576
Bengal ...	539,611	146,027	48,910	26,777	52,911
N.W.P. & Oudh ...	281,222	357,630	—69,276	—180,060	—12,408
Punjab ...	—110,966	—15,765	—41,545	42,447	3,106
Madras ...	108,421	10,820	—87,284	146,692	—78,689
Bombay ...	—149,894	—2,585	6,006	291,976	—161,369

* No balance left at the close of the year.

† Equilibrium.

‡ Balance obtained by excess of current revenue over current expenditure of the year.

Compiled from the annual Finance and Revenue Accounts of the Government of India.

The settlements entered into with the Provincial Governments in the year 1882-3 not only differed from the preceding settlements in the replacement of fixed assignments by shares in the Imperial revenues, but they also differed in another important respect, namely, their duration. Though the results of the scheme of provincial Finance have been presented in one Table covering the period 1871-7, it must not be supposed that the settlements with the various Provinces were made for the period of six years. On the other hand, the settlements were only annual and lasted up to 1877 by the process of constant renewals. The results have been presented together for a continuous period not because the setttlements were made for that period, but because the principle on which they were based endured for that period. After 1877 the settlements no doubt were made for a longer period. In two cases they were for five years and for the rest the period ranged between two and three years. The short duration system, like the fixed assignment system, was of immense advantage to the Imperial treasury. The object of these settlements, it will be recalled, was firstly to put a definite limit on the demands of the Provincial Governments on the already too scanty resources of the Imperial Government. Evidently this object would have been better served had the duration of the settlements been longer than it was. But a longer duration would have deprived the Imperial treasury of its right to profit by an early revision of the revenue side of the contract. It was this consideration of not remaining too long out of pocket, that had hitherto prevailed upon the Government of India to shorten the duration of contracts as much as possible. But what was an advantage to the Imperial treasury was from the standpoint of the Provincial Government a serious drawback. Owing to the short durations of the settlements the Provincial Governments were not in a position to distribute the funds at their disposal on the incorporated services so as to open a new page in their financial history. They could not adopt a definite financial policy, for they feared that the new terms on renewal might compel them either to give up the policy or modify it so seriously as to prejudice its results. A single budget may seem nothing more than the conspectus of financial happennings of the year to which it pertains, yet to the financier who frames them year after year they embody a definite policy running towards its consummation. But a policy, however wisely adopted, may be thwarted by an unwise disturbance of the uniformity of conditions on which its fulfilment depends. This was just the flaw that deteriorated the sound working of Provincial Finance. Constant renewals had a general disturbing effect, and the duration between any two of them was indeed too short to give a stable state of conditions. Being impressed by the fact that the advantages of a short-duration-contract to the Imperial treasury were enormously counterbalanced by its disadvantages to Provincial Finance, the Government of India, on the occasion of revising the settlements in 1882-3, made it a definite rule that they shall be quinquennial in duration; that is, they shall not be subject to revision before the end of the fifth year from their commencement.

Revision of 1887-8

By virtue of this rule the settlements made in 1882-3 expired in 1887. The revision then undertaken, as well as the subsequent ones, left as a rule undisturbed the two categories of revenue and expenditure, namely, those wholly Provincial and wholly Imperial. It became almost a convention to leave them as they were since the separation in 1882, when the constitution of Provincial Budgets was thoroughly overhauled and consolidated. The only heads of revenue and expenditure that were revised, as revision fell due, were those that were grouped under the third category, namely, jointly Imperial and Provincial, otherwise known as "Divided Heads."

In the revision of 1887-8 the decisive factor was the unsatisfactory position of the Imperial Finances already referred to. To improve its financial position the shares in the joint heads were altered so that each Local Government was allowed to appropriate three-fourths of the stamps and one-fourth of the excise revenue, and required to bear the expenditure under those heads in like proportion. The proportions of land revenue were also altered so that three-fourths of it was made Imperial, and one-fourth Provincial. But the needs of the Imperial treasury were so great that the Government of India even revised some of the heads of the other two categories, namely, Salt, Customs, Interest, Irrigation and Railways, to its own advantage. The details of the gain to the Imperial treasury are as given below :—

Revenue	Imperial Share Increased —Decreased	Net Gain
Land Revenue	437,500	
Stamps (share reduced from ½ to ¼	—810,000	
Excise (share increased from ½ to $^3/_4$)	947,500	
Salt revenue of Burma imperialized	5,000	
Customs revenue of Burma imperialized	155,000	
Assessed taxes—divided in moieties	—290,000	215,000
State Railways gross earnings—		
Nagpur Chhattisgarh, Patna-Gaya, Cawnpore-Achneyra	—310,000	
Eastern Bengal, provincialized	—540,000	
Expenditure	**Increased —decreased**	**Net Gain**
Land Revenue, entire provincialization of survey and settlement	145,000	
Salt in Bombay imperialized	—90,000	
Customs in Bombay imperialized	—50,000	
State Railways—		
Working expenses:—		
Provincialized	305,000	395,000
Imperialized	—215,000	
Interest—Provincialized	—70,000	
Imperialized	—65,000	
Irrigation—Provincialised. Bengal	65,000	
" " Madras	230,000	
Add—Small items of accounts unenumerated ...	... ...	20,000

This gain to the Imperial treasury was distributed in the following proportion among the various Provinces :—

Provinces	Increase of annual resources under the principal Provincial Heads of Revenue as estimated on comparison of 1882 and 1887			Amount by which Annual Provincial Resources were reduced by the Revision of 1887
	Land Revenue	Stamps and Excise	Total	
	£	£	£	£
C.P. ...	2,200	45,500	47,700	15,600
Burma ...	4,700	9,200	13,000	...
Assam ...	22,300	21,300	43,600	24,600
Bengal ...	19,200	171,550	190,750	103,600
N.W.P. ...	8,000	130,150	138,150	100,000
Punjab ...	32,800	23,100	55,900	...
Madras ...	27,750	142,550	150,300	174,400
Bombay ...	99,000	198,550	297,550	221,900
Total ...	195,950	741,900	937,850	640,100

This would have been the net gain to the Imperial treasury had it not been for the fact that it conceded to Burma the sum of £ 10,000. The net gain was thus reduced to £ 530,100 per annum.

The condition of Provincial Finance during the period of 1887-92 may be judged from the following table presenting the annual surplus and deficit of each of the different Provinces :—

Province	Annual Surpluses and Deficits				
	1887-8	1888-9	1889-90	1890-1	1891-2
	Rs.	Rs.	Rs.	Rs.	Rs.
C.P. ...	13,148	22,583	—12,322	—31,573	17,540
Burma ...	77,028	11,560	64,072	106,216	50,598
Assam ...	7,751	26,343	20,090	—17,871	31,185
Bengal ...	131,007	—65,792	102,547	—120,377	—11,934
N.W.P. & Oudh ...	—53,900	45,949	102,710	—12,544	—4,399
Punjab ...	12,446	32,142	29,264	31,367	—1,719
Madras ...	105,371	113,932	144,571	—136,739	—241,770
Bombay ...	—24,574	18,322	41,361	—123,887	—53,189

Compiled from the annual Finance and Revenue Accounts of the Government of India.

Revision of 1892-3

The next revision of provincial settlements under the rule of quinquennial revisions occurred in 1892-3. The new settlements to commence from that year did not differ in principle from those of 1887-8. The shares in the Joint Revenue were so readjusted as to give to the Imperial treasury a larger gain from the growing yield of the provincialized sources. The amount resumed by the Imperial Government at this revision through readjustments of shares was estimated as follows:—

Province	Increase of Revenue in 1891-2 (Revised Est.) as compared wih the Estimate for the Contract of 1887-8 to 1891-2	Amount resumed by the Government of India
	Rs.	Rs.
C.P. ...	119,200	22,700
Lower Burma ...	334,900	58,900
Bengal ...	517,700	51,900
N.W.P. & Oudh ...	53,300	56,900
Punjab ...	195,400	41,000
Madras ...	313,200	103,800
Bombay ...	399,200	131,100
Assam ...	99,800	......
Total ...	2,042,700	466,300

But this gain to the Imperial treasury seriously disturbed the equilibrium between the expenditure of the Provinces estimated as normal for the ensuing period and the normal estimated yield of revenues left to them. To restore equilibrium between their normal expenditure and normal revenue the Government of India reverted to the discarded method of fixed adjusting assignments, so that while the actual revenues and charges deviated from what was estimated as normal for the period of the settlement, the adjusting entry allowed by the Imperial Government to each of the provinces remained fixed throughout the whole period. The following is a statement of estimated normal expenditure and revenues of the different Provinces with their respective adjusting assignments as fixed for the new period :—

Provinces	Provincial Revenues			Provincial Expenditure
	Ordinary Revenue being a share of certain Receipts	Adjusting Assignments	Total	
	Rs.	Rs.	Rs.	Rs.
C.P. ...	567,600	220,500	788,100	788,100
Lower Burma ...	1,427,500	414,300	1,841.800	1,841,800
Assam ...	657,700	—112,700	545,000	545,000
Bengal ...	4,249,300	—143,900	4,105,500	4,105,900
N.W.P. & Oudh ...	3,403,500	—250,000	3,152,900	3,152,900
Punjab ...	1,370,400	348,500	1,718,900	1,718,900
Madras ...	2,479,300	325,400	2,804,700	2,804,700
Bombay ...	3,123,900	771,400	3,895,300	3,895,300

The evil effect of large resumptions and fixed assignments will be clearly seen in the condition of Provincial Finance as indicated by the annual surpluses and deficits over the period of the settlement:—

Province	Annual Surpluses or Deficits				
	1892-3	1893-4	1894-5	18S5-6	1896-7
	Rs.	Rs.	Rs.	Rs.	Rs.
C.P. ...	—21,798	—60,772	—105,108	19,653	—37,408*
Burma ...	66,642	—90,653	—272,319	226,505	780
Assam ...	9,336	28,532	—27,422	30,507	—25,421
N.W.P. & Oudh ...	—16,752	—25,155	—165,987	—139,798	—164,740
Bengal ...	—9,826	36,887	169,796	149,808	—186,558
Punjab ...	—106,050	—22,699	—24,811	—7,156	—64,073
Madras ...	—159,081	33,636	92,328	44,118	—200,579
Bombay ...	—23,883	19,443	—102,472	100,690	—221,119

* No closing balance left.

Complied from the Annual Finance and Revenue Accounts of the Government of India.

It must, however, be admitted that the financial arrangements of the Provinces during this period were considerably disturbed by the outbreak of plague and famine towards the close of the settlements. The expenditure which the Provinces were obliged to incur to meet these two calamities depleted the resources of all and brought the Central Provinces and the North-West Provinces to the verge of bankruptcy, from which they were rescued by the following contributions made by the Government of India in aid of their balances in the year 1896-7 :—

To Central Provinces	...	Rs. 526 lakhs.
To N.W.P. and Oudh	...	Rs. 1,609 lakhs.

Revision of 1896-97

This depression in Provincial Finance was alleviated to some extent at least in the revised settlements of 1896-7 by allowing a higher standard of expenditure and of revenue to the Provinces than was granted to them in 1892. The following table presents the old and the new standard of expenditure with the percentage difference between them :—

Provinces	Standard Net Expenditure		Increase per cent.
	1892	1897	
	Rs.	Rs.	
Central provinces ...	653,300	710,700	8.8
Lower Burma ...	1,064,600	1,206,100	13.3
Assam ...	467,600	564,900	20.8
Bengal ...	2,816,700	3,125,500	10.9
N.W.P. ...	2,215,400	2,428,700	9.6
Punjab ...	1,384,600	1,537,300	11.0
Madras ...	2,054,800	2,238,600	8.9
Bombay ...	2,049,500	2,544,100	5.6
Total ...	13,066,500	14,355,900	9.9

This new and enhanced standard of expenditure called for a revision of the shares of the Imperial and Provincial Governments in the joint revenues. But the revision had to be so devised that while it gave larger resources to the Provinces it obviated the necessity of making fixed assignments as much as possible; for the Government of India had learnt to its cost that fixed assignments on a large scale tended to make the resource side of the Provincial Finance rigid to such an uncomfortable degree that, if the variability of expenditure surpassed the expansibility of the revenue incorporated in the Provincial Budgets, it was perforce obliged to distribute benefactions to ease what would otherwise be a difficult situation. Secondly, these fixed assignments also created a certain degree of inequality as between the backward and the more advanced Provinces. In the advanced Provinces the fixed assignments formed a comparatively smaller part of their resources than they did in the case of the relatively backward Provinces, and, as larger expenditure could be undertaken by the Provinces only when their revenues expanded, the advanced Provinces, a larger part of whose resources were of an expanding nature, obtained a more favourable treatment than the relatively backward Provinces, a large part of whose resources were of a frozen character. This was rightly conceived by the Government of India as the reverse of what ought to have been, having regard to the fact that the needs of the backward Provinces were relatively more imperious than those of the advanced Provinces. To obviate this injustice the Government of India enhanced the shares of the backward provinces in the joint revenues by reducing *per contra* the fixed assignments made at the last revision. To the Punjab it gave .4 and to the Central Provinces .5 of the Land Revenue instead of .25 only. The share of Burma in the Land Revenue was raised to .66, and to make provision for the enhanced expenditure due to the addition of Upper Burma, and in lieu of the railway revenue withdrawn from it, Burma was allowed to appropriate .5 of the Excise instead of .25 only. The financial condition of the North-Western Provinces was not very happy. Its revenue had proved so very unprogressive that it advanced only 2 per cent. between 1892 and 1897. The treatment of the North-Western Provinces at the revision of 1892 was also a little unjust. The revision had left its revenues short by 5 lakhs of its standard expenditure, to be made up by reduction of its balances. To make amends for this the Government of India re-distributed the shares in the Land Revenue to the advantage of the North-Western Provinces. In addition to this the Government of India gave to that Province a grant of 4 lakhs for the year 1897-8, to enable it to establish district funds on a financially independent footing, a result accomplished long ago in every other Province in British India. To give an equitable treatment to the backward as well as to the advanced Provinces, it realized that an unequal treatment was the only properway. It therefore adopted a less liberal attitude in revising the terms of the settlements with the more advanced Provinces of Bengal, Madras and Bombay. It allowed them a proportionately smaller increase of expenditure than the backward Provinces, as may be seen from the figures given above, and reduced slightly their shares in the revenues.

On the occasion of this revision the gain to the Imperial exchequer was practically negligible. In 1877 its total gain by retrenchment amounted to 40 lakhs a year; in 1882 the Imperial Government was so very prosperous that instead of contriving for a gain it surrendered to the Provinces 26 lakhs of the annual imperial revenue. But in 1887 it resumed 63 lakhs and in 1892,46 lakhs. On this occasion however its gain was nil, for what it got from the advanced Provinces it gave to the backward ones.

Just and liberal as the terms of the settlement were, the abnormal circumstances which disturbed the entire period of the settlement made such heavy demands on the Provincial resources that, ample though they were, they fell far short of the requirements of the Provinces. The famine of 1896 and 1897 affected all the Provinces, although in unequal degree. In the North-Western Provinces and Oudh, the Central provinces, and Burma the effect was most severely felt. In Madras, Bengal and the Punjab it was serious, and in Burma it was slight. On the other hand, the famine of 1899 and 1900 affected Bombay and the Central Provinces most severely, the Punjab very seriously and the rest of the Provinces slightly. And Assam, though unaffected by either of the two famines, suffered very severely from the great earthquake of June, 1897. Besides famine the plague was also making its ravages and taking its toll. As a result of these unforeseen calamities all the Provinces were forced to incur extraordinary expenditure on preventive measures, for which no provision was made in the standard of revenue fixed for the period of settlement. The expenditure on these unforeseen calamities being of an extraordinary nature was treated as imperial and defrayed from the Imperial exchequer, but even this much succour did not prove equal to the necessity and the Government of India was obliged to make special grants-in-aid of the Provincial Revenues as shown on page 168.

Thus the Government of India was not only obliged to pay for the cost of the famine, but to grant funds to restore equilibrium and to provide for useful public services held up or curtailed by the Provincial Governments owing to the extraordinary circumstances of the time.. All this aid from the Imperial Government was made available because of the very prosperous condition of the Imperial finances throughout this period. While it is better that governments in general should always be in penury, the surpluses in the Imperial Finance proved a timely resource, the utility of which was doubled by the commendable way in which they were spent. Besides giving them grants for useful public works the superfluous funds of the Imperial Government were utilized in carrying out the following additional measures to the relief of the Provinces :

(1) Remission of Imperial Land Revenue Rs. 50,94,000 and reimbursement to the Provinces for their share remitted Rs. 59,81,000; in all Rs. 1,10,75,000.

(2) The abolition of the pandhari tax in the Central Provinces, costing Rs. 7,000 a year.

(3) The reduction of the patwari rate in Ajmere, from 10 per cent. on land revenue to 6¼ per cent.; the amount of the local revenue remitted was—Rs. 13,000, but the contribution paid to the local fund was Rs. 23,000.[1]

Taking into account these various contributions in aid of Provincial Revenues, the following table is presented as indicative of the condition of the Provincial Finances during this period of settlement :—

Provinces	Provincial Surpluses or Deficits						
	1897-8	1898-9	1899-1900	1900-1	1901-2	1902-3	1903-4
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
C.P. ...	(a)	12,288	—1,22,883	(a)	22,42,408	—705	—7,40,742
Burma ...	1,69.435	4,11,494	26,14.312	15,16,220	7,55,285	...	...
Assam ...	—45,580	86,742	—8,15,488	—86,829	1,47,353	10,08,393	11,40,517
Bengal ...	—3,03,250	2,19.449	7,01,899	4,43,224	6,44,170	6,23,640	87,23,496
N.W.P. ...	(a)	3,28.562	7,53,815	8,04,789	...	...	...
Punjab ...	—2,278	1,15,379	—16,53,794	(a)	14,96,350	10,28,770	6,74,880
Madras ...	—1,57,707	1,60,706	—17,58,029	—3,21,013	40,41,297	—15,810	52,40,809
Bombay ...	—1,29,663	1,00,427	—15,04,271	(a)	58,23,235	—24,23,235	—1,23,000
U.P. of Agra and Oudh	...	...	...	...	—9,63,788	—64,372	37,11,281

(a) No closing balance left because of Budget equilibrium.

Compiled from the Annual Finance and Revenue Accounts of the Government of India.

[1] Financial Statement of the Government of India, 1902-3, para. 146.

IMPERIAL SPECIAL GRANTS-IN-AID TO PROVINCES*

Year		India	C.P.	Assam	Bengal	N.W.P. and Oudh	Punjab	Madras	Bombay	Burma
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1897-98		...	7,72,000	8,00,000		10,27,000	...	...	12,18,000	...
1898-99		...	5,00,000	18,00,000	17,00,000	10,00,000	5,00,000	16,96,000	48,75,000	...
1899-1900		...	19,32,000	...	...	...	95,000	3,49,000	34,37,000	...
1900-01		...	34,15,000	...	...	...	5,98,000	...	64,79,000	...
1901-02		...	26,89,000	2,00,000	...	...	12,40,000	32,14,000	91,00,000	...
			6,50,000	...	...	...	4,00,000	10,00,000	19,50,000	...
	1		2,00,000	1,00,000	10,00,000	5,00,000	4,00,000	8,00,000	6,00,000	4,00,000
1902-03	2	A 70,000	2,00,000	2,80,000	6,00,000	4,50,000	5,00,000	5,50,000	5,50,000	...
	3	B 1,00,000	2,00,000	1,50,000	...	3,50,000	3,00,000	3,50,000	3,50,000	...
	1	...	2,00,000	1,00,000	10,00,000	5,00,000	4,00,000	8,00,000	6,00,000	4,00,000
1903-04	2	...	5,00,000	5,00,000	2,00,000	3,00,000	10,00,000	5,00,000	10,00,000	...
	3	...	1,90,000	1,11,000	...	2,26,000	2,76,000	3,50,000	3,50,000	...

1. For education (recurring).
2. For use Public Works.
3. For improving district and other establishments.

A. Allotment for Public Works in Baluchistan, Rajputana and Central India.
B. Amount taken the "India" estimates for subsequent distribution to the provinces.

* Complied from the annual Financial Statements of the Government of India.

Revision of 1902-3

Settlements made with the Provinces in 1897 should have ended in the ordinary course of time in 1902-3. The central operation in the periodic revision of the settlements was to arrive at the standard provincial expenditure for the ensuing quinquennium and as a rough and ready method of decision the average expenditure during the expiring quinquennium was taken as a standard expenditure for the opening quinquennium. There is nothing grossly erroneous in such a procedure, provided the preceding and succeeding quinquenniums are equally normal with respect to the course of their events. But as we have seen, the events of the past quinquennium were entirely abnormal and could not have been made the basis of any calculations worthy of trust. To be on the safe side the Government of India thought it desirable to await the return of normal times before undertaking wholesale revisions of provincial settlements. The occasion of 1902-3 for revision was therefore postponed save in the case of Burma. For, the last settlement had become unduly favourable to that Province in comparison with the other Provinces, notwithstanding the very nice and equitable calculations on which the settlements of 1896-7 were based. The extent to which the revenues had exceeded its expenditure is indicated in the following table :—

Burma	Estimated Standard for the Settlement of 1897-8 to 1901-2	Estimates for 1902-3	Difference
	Rs.	Rs.	Rs.
Revenues	2,93,81,000	3,73,86,000	80,05,000
Expenditure	2,93,81,000	3,31,86,000	38,05,000
Surplus	...	42,00,000	...

The continuance of such an outcome was deemed unfair to the Imperial and unjust to the other Provincial Governments. The financial settlement of the Province of Burma was accordingly revised notwithstanding the established canon of simultaneous revision, when the occasion presented itself in 1902-3. The revision resulted in the resumption by the Government of India of this surplus by readjusting the shares of the Province in the joint revenues. The share in the Land Revenue was reduced from two-thirds to one-half and that in the Excise from one-half to one-third, and a few minor heads were added to the already provincialized heads of expenditure. By these changes the standard revenue and expenditure of Burma for the new settlement of 1903 to 1906 assumed the following totals :—

Revenues	Adjusting Assignment	Total Revenues	Total Expenditure
Rs.	Rs.	Rs.	Rs.
2,78,31,000	53,02,000	3,31,33,000	3,31,33,000

Another province whose settlement was revised was the Punjab; but the reason of it was different. The territory covered by the North-Western Provinces was divided into the North-Western Frontier Provinces and the United Provinces of Agra and Oudh, usually styled U.P. Along with this some of the districts of the Punjab were separated from it and joined to the newly created North-Western Frontier Province. This caused a readjustment of the provincial revenues and expenditure, but not any wholesale revision of the settlement. The changes were confined to the necessary alterations in the adjusting assignment.

Quasi-Permanent Revision 1904-5

With the exceptions noted above the settlements of 1897 were extended up to the end of the year 1904. The primary cause of the postponement of the revision as explained above was the abnormality of the conditions prevailing in the year 1901-2. But there was also another reason why the Government of India was so very anxious for the return of normal conditions before taking any steps towards revision. It was about this time that the Government of India contemplated to introduce permanency in Provincial Finance. The five-year budget system which in 1881 replaced the annual budget system as the basis of Provincial Finance, though a marked improvement in the direction of continuity and stability, was not deemed to be quite sufficient. Under it the Provincial Governments were left free to enjoy the fruits of their economy in expenditure and of the successful nursing of their resources for the period of five years. Beneficial as far as it went, this time-bar was found to exercise a most pernicious influence on Provincial Finance. Under the quinquennial budget system it so happened that the provincial Governments as the result of feeling their way under the new conditions were parsimonious in the first few years lest their expenditure should prove too much for their revenues, and extravagant in the last few years lest their expenditure should shrink below the standard and leave large margins to be cancelled by the Government of India on revision of their settlements. No Local Government could be expected to put into execution any carefully matured and well-thought-out scheme of improvement within the short span of a quinquennium. All that it could do was to spend the first two or three years in working out a scheme and utilize the last two or three years in rushing it through, as was done by most of the Provinces. This tendency to undertake such schemes, the only merit of which was that they could be carried through before the revision, and mainly in order to reach the standard expenditure, was a direct consequence of the quinquennial budget system. This is by no means an a priori conclusion. A glance at the annual surplus of the provinces will indicate how they tend to rise in the beginning of the quinquennium and fall at the end of it. To obviate these evils of parsimony and extavagance the only remedy was to do away with the principle of quinquennial revision, and this the Government of India courageously undertook to effect. The right to revise was a much cherished right, and the Government of India had not failed to exercise it in the teeth of all opposition from the Provinces. It was abandoned only because its exercise was deemed to be mischievous.

Taking the year 1903-4 as the normal one, the Government of India decided to revise the provincial settlements of all the different Provinces. The idea was to adjust the revenues between the Imperial and the Provincial Governments on the basis of the total expenditure they respectively controlled. It was found that the aggregate provincial expenditure represented less than one-fourth of the whole, while the Imperial expenditure, which included Army and Home Charges, aggregated in excess of three-fourths. These proportions of expenditure were taken as the basis of the division of revenue between the Imperial and the Provincial, and the following standard shares of revenue and expenditure under the joint heads were agreed upon :—

	Imperial	Provincial
Bengal, U.P., Bombay, Madras	$3/4$	$1/4$
Punjab, Burma	$5/8$	$3/8$
C.P., Assam	$1/2$	$1/2$

The reasons for adopting different standard rates of division in the case of the Punjab, Burma, C.P. and Assam was to give the backward provinces opportunities of development in the same proportion as lay within the reach of the advanced provinces.

Of the settlements made in 1904-5 the Government of India declared that those made with the Provinces of Bengal, Madras, Assam and U.P. were to be permanent and not subject to revision in future, except when it was found that the financial results were unfair to a Province or to others by comparison, or to the Government of India when it was confronted by an extraordinary calamity. Owing to this proviso their settlements were termed quasi-permanent. To obviate the recrudescence of unfairness during the currency of the settlements the Government of India felt it necessary to enter certain modifications in the standard ratio of division of the joint-heads of revenue and expenditure with regard to the Provinces brought under the quasi-permanent settlement. They were as follows :—

	Provincial Share				Provincial Share		
Revenue	Bengal	Madras	U.P.	Expenditure	Bengal	Madras	U.P.
Excise ...	7/16	...	...	Excise ...	7/16	...	...
Stamps ...	½	½	½	Stamps ...	½	½	½
Registration ...	Wholly	Wholly	...	Registration ...	Wholly	...	...
Irrigation ...	...	...	Wholly	Land Revenue ...	Wholly	Wholly	Wholly

Compiled from the Financial Statement of the Government of India for 1904-5, p. 57.

Besides these modifications the Government of india gave them the following grants :—

Bengal	Madras	United Provinces
1. Addition of 4 lakhs to the assessment to improve the pay of Ministerial establishments.	1. Grant of 20 lakhs for Survey and settlements.	1. Irrigation revenue guaranteed up to 40 lakhs.
2. Further addition not exceeding 2½ lakhs for for strengthening the staff of Deputy Collector.	2. Grant of Rs. 75,000 a year recurring for relief of certain local bodies.	2. Grant of 2½ lakhs a year in relief of local bodies.
	3. Rs. 50,000 a year for agricultural experiment.	3. Half a lakh a year to reform District Board Finance.
	4. Undertaking to bear charges for reorganizing district administration.	

Compiled from the same Financial Statement of the Government of India, p. 67.

The standard revenues and expenditure of the quasi-permanently settled provinces, after taking into consideration the alterations in their respective shares in the joint revenues, were as follows :—

STANDARD REVENUES AND EXPENDITURE

(in thousands of rupees).

Province	Expenditure	Revenue		
		Revenues	Assignments	Total
Madras	3,50,48	2,90,82	5,966	3,50,48
Bengal	4,98,87	4,49,84	4,903	4,98,87
U.P.	3,66,64	3,62,64	400	3,66,64
Assam	72,07	60,07	1,200	72,07

The gain to the Imperial treasury on the revenue side brought about by the revision of the quasi-permanently settled Provinces was Rs. 2,06,000. But the revision also over-burdened the Imperial Government with a total charge of Rs. 36,000 hitherto borne by the Provincial Budget. Thus its net gain was only Rs. 1,70,000 a year on the normal.

As in the beginning of the scheme of Provincial Budgets, the government of India thought it advisable to make to the quasi-permanently settled Provinces the following initial grants so as to give them a fair start:—

To Bengal,	Rs.	50 lakhs. (Exclusive of 50 lakhs for Calcutta Universsity.)
To Madras,	Rs.	50 lakhs. (Inclusive of 20 lakhs for survey settlement.)
To U.P.,	Rs.	30 lakhs. (Exclusive of 1¼ lakhs to compensate forexpenditure on the purchase of encumbered estates.)
To Assam,	Rs.	20 lakhs.

Of the remaining Provinces, Bombay and the Punjab were the next to obtain quasi-permanent settlements with effect from 1905-6.

In recasting their settlements the Government of India departed a little from the standard rate of division as applied to the Provinces quasi-permanently settled in 1904-5. With certain exceptions mentioned below the joint heads of revenue and expenditure were divided half and half, including Irrigation in Bombay, instead of three-fourths and one-fourth between the Imperial and the Provincial. The exceptions to this rule were the following :—

Revenue Heads of Account	Provincial Share		Expenditure Heads of Account	Provincial Share	
	Bombay	Punjab		Bombay	Punjab
Land Revenue	Guaranteed Up to 189¼ lakhs	3/8	Land Revenue	Wholly	Wholly
Registration	Wholly	Wholly	...	...	...
Irrigation	½	3/8 Guaranteed up to 28 lakhs			

Compiled from the Financial Statement of the Government of India

The standard revenue and expenditure of these two provinces under the quasi-permanent settlement was as follows :—

Province	Expenditure	Revenue		
		Revenues	Fixed Assignments	Total
	Rs.	Rs.	Rs,	Rs.
Bombay	4,91,75,000	4,48,98,000	42,77,000	4,91,75,000
Punjab	2,49,50,000	2,46,50,000	3,00,000	2,49,50,000

The raising of the shares and the fixing of assignments on a liberal scale with respect to these famine and plague-stricken Provinces left the Imperial Government a loser on the transaction. On the basis of the new standard of revenues the Government of India lost Rs. 5,95,000 on the two Provinces together. The corresponding increase in the provincial shares of the joint heads of expenditure, however, lessened the Imperial expenditure by Rs. 2,21,000 a year. On the whole, therefore, the Imperial Government sacrificed a normal gain of Rs. 3,74,000 to give permanency and stability to the finances of these two Provinces. This was over and above the initial grant of Rs. 50,00,000 to each of them in order to enable them to set their sails in smooth waters.

A year after, the settlement of the Central Provinces was made quasi-permanent with effect from April 1, 1906. The shares in the joint heads of revenue and expenditure were raised, as they were in the case of Bombay and the Punjab, and particularly because of the addition of Berar, which was hitherto administered directly by the Imperial Government, from three-fourths and one-fourth to one-half between the Imperial and the Provincial, the share in the land revenue being guaranteed up to 82½ lakhs. The only exception to this rule of even division was the Registration revenue, which was made wholly provincial. To balance the revenue with the expenditure an assignment of Rs. 27,07,007 a year was fixed and an initial grant of Rs. 30,00,000 was given for a fair start.

Along with the settlement of the Central Provinces it became necessary to reorganize the budgets of the quasi-permanently settled Provinces of Bengal and Assam owing to certain administrative changes. The two Provinces were reconstituted into (1) Bengal and (2) Eastern Bengal and Assam. In the revision of its financial settlement the new Province of Bengal was accorded the same proportionate share in the joint revenues as were granted to Bombay and the Punjab—namely, a share of a half in all the joint heads. Registration and that portion of the Land Revenue which was derived from Government Estates under the direct management of the Imperial Government were, however, made wholly provincial. In lieu of this favoured treatment the fixed assignment of the Province was reduced from 49.03 lakhs to 5.72 lakhs.

In the new Province of Eastern Bengal and Assam the principle of even distribution was applied to all joint heads of revenue and expenditure with the exception of Registration, which was made wholly provincial. This enhancement of shares so greatly augmented the resource side of the Provincial Budget that the balance had to be restored by a negative operation of a fixed adjusting assignment from the Provincial to the Imperial funds. The following figures show the standard expenditure and the standard revenue for the three provinces brought under the quasi-permanent settlements :—

Province	Expenditure	Revenue		
		Revenues	Assignments	Total
	Rs.	Rs.	Rs.	Rs.
C.P.	1,76,43,000	1,49,36,000	27,07,000	1,76,43,000
Eastern Bengal and Assam ...	2,12,19,000	2,18,42,000	6,23,000	2,12,19,000
Bengal	4,72,73,000	4,67,01,000	5,72,000	4,72,73,000

Some modifications were later on introduced in the settlement of the Province, so that a positive adjustment had to be made by an assignment from the Imperial to the Provincial of Rs. 60,000 a year.

The only Province which was outside the pale of the quasi permanent system was Burma. The last quinquennial settlement made with it in 1902-3 having expired, the Government of India decided to bring it in uniformity with the other Provinces by giving it a quasi-permanent settlement from April 1, 1907. In a spirit of perfect impartiality it was also given an even share in the principal joint heads of revenue and expenditure, salt being imperialized as in other provinces. It was given an adjusting assignment of Rs. 90,68,000 a year to cover the deficits in its standard expenditure and an initial grant of Rs. 50,00,000.

By the year 1907 all the Provinces were brought within the pale of the quasi-permanent settlement, and we would have expected the scheme of Provincial Finance to run its course undisturbed by any further changes. But it so turned out, as must have been noticed, that the quasi-permanent settlements made with Madras and U.P. in 1904 had become a little unfair to them in comparison with the terms offered to the Provinces subsequently dealt with. To remove this ground of injustice, which was one of those recognized for subjecting the quasi-permanent settlements to revision, the shares of the two Provinces in the joint heads were raised with effect from April 1, 1907, to one-half, with the following exceptions :—

Madras		United Provinces	
	Revenue		Revenue
1.	Registration. Wholly Provincial,	1.	Land Revenue. 3/8 Provincial. Minimum of 240 lakhs guaranteed.
2.	Land revenue. Minimum receipt of 308 lakhs guaranteed if the provincial share fell below that amount.	2.	Irrigation. Minimum receipt of 60 lakhs from major irrigation works guaranteed, if the provincial share fell below that amount.
	Expenditure		
1.	Registration. Wholly provincial.		
2.	Land Revenue. Wholly provincial.		

The fixed assignments to cover the difference between the excess of standard expenditure over standard revenue were :—

To Madras	...	...	Rs. 22,57,000
To U.P.	...	...	Rs. 13,89,000

Thus the scheme of Provincial Finance in British India had advanced by gradual but distinct steps of assignment budgets, assigned revenue budgets and shared revenue budgets to a stage the terms of which were regarded by the parties concerned as sufficiently final. How far their expectations were fulfilled may be judged from the annual surpluses and deficits in Provincial Finance and from the range in their deviations as indicated in the following table :—

PROVINCIAL SURPLUSES AND DEFICITS

Province	1904-5	1905-6	1906-7	1907-8	1908-9	1909-10	1910-11	1911-12
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
C.P.* ...	—701000	3235000	1750607	—930617	—3097865	721755	280556	1214573
Burma ...	—1591796	—2613890	1890516	—3129590	—2060678	2515371	1900297	—1260040
Assam† ...	—269316	—3720027	—200140	—2596682	—2357687	549270	5539698	5218802
Bengal ...	—1252818	—1952312	—1877455	—2256994	—1330371	3274065	3960612	6296233
U.P. ...	—869099	—2879192	795600	—3587066	1007260	2045221	3635904	144240
Punjab ...	4794387	—2796052	—661214	—2408818	—1576981	1300559	4199121	3398055
Madras ...	—1402344	220328	1217745	—44992	2025109	1266326	2316383	2938502
Bombay ...	4396000	—42892	1752202	—308925	—2618926	7137996	7585460	—541411

* Includes Berar since 1906.

† Eastern Bengal and Assam since 1906.

Compiled from the Annual Finance and Revenue Accounts of the Government of India.

In judging of these results account must also be taken of the various benefactions made by the Government of India to the Provinces by way of grants-in-aid during the same period. These grants were as follows :—

IMPERIAL GRANTS-IN-AID TO THE PROVINCES

Province	1904-5	1905-6	1906-7	1907-8	1908-9	1909-10	1910-11	1911-12
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
C.P.* ...	2853710	6957793	110500	2752010	2903668	3588270	3465500	2080845
Burma ...	567500	1845000	7219000	682000	215253	1820952	4232742	3605164
Assam ...	...	3362916	327294	280030	2358947	4464435	4608965	6100732
Bengal ...	24794	4806984	475548	1362634	4157393	5753692	6137013	11131276
U.P. ...	136600	4036307	7641697	9879667	8770345	1624329	4513729	3136107
Punjab ...	7526436	2467579	4209531	5541529	6037990	5839014	9592844	3101681
Madras ...	700946	4430714	9980400	9473304	704885	612941	3691426	5008889
Bombay ...	10312928	3427325	4024512	4574284	5726162	5797603	12009360	4935159
Total ...	22122914	31334618	34982982	34543458	30874643	29502286	15475360	39099853

* Includes Berar since 1906.

Compiled from the Annual Finance and Revenue Accounts of the Government of India.

But in taking account of these benefactions it must not be supposed that, barring a solitary case or two, they were necessary in order to preserve the solvency of Provincial finance as it was defined by the terms of the settlement made with the different provinces. Far from being insufficient, the revenues settled upon the different Provinces proved quite ample for their needs if we take the last years, and they are the most typical years, into consideration.

Permanent Settlements of 1912

Soon after the series of quasi-permanent settlements were concluded with the different provinces, the subject of Provincial and

Central Finance in British India among others of a like nature was investigated by the Royal Commission on Decentralization. In its Report issued in 1909 the existing method of allocating revenue and charges between the Imperial and Provincial Governments was upheld in principle. Of the many-adverse criticisms passed by witnesses who appeared before the Commission only two were regarded by it as worthy of consideration : (1) The adjusting assignment and (2) Grants-in-aid, or doles as they were cynically termed. It was urged, and with some truth, that the adjusting assignments impaired the elasticity in provincial revenues by reason of the fact that while charges grew, that part of the provincial resource, which was made up by assignments, and in some cases it formed quite an appreciable part, remained unaltered. Secondly, it was argued that doles were demoralizing and that it would be better to replace them by shares in growing revenue. The Commission seems to have been completely impressed by the disadvantages of large adjusting assignments, but it demurred, and rightly so, to the criticisms with regard to the doles. Every one extolled the benefits of decentralization to the Provinces, but few realized the anxieties that it involved to the Government of India. It must have been clear that by the process of decentralization the Government of India had given the Provinces more or less complete freedom in distributing their funds in any way they liked upon the services delegated to their management, while it had remained responsible for their efficient upkeep by the provisions of the law which governed its constitution. But the freedom which the provinces had obtained in carrying on the financial management of the services made over to their particular control, involved the possibility of their fostering certain services deemed to be of immediate utility to the people of the Provinces, and neglecting others the utility of which, though remote to the Provinces, was nevertheless real to the country as a whole. Neglect of nationally important services such as Education, Sanitation, Police, was especially to be avoided during periods of plague and famine. But the Government of India could not enforce distribution of provincial funds on such services; for one of the vital conditions of Provincial Finance was freedom of appropriation on provincialized services, which were not distinguished into obligatory and optional as is the case in the continental system of local finance.

The Government of India was indeed not as powerless as the Central Government in England which, as is well known, cannot rectify cases of neglect by local authorities without resort to a writ of *mandamus*. But the way to bring a recalcitrant province to order, if easier, was not pleasant. For, the only way to mend such a situation was to end it by suspending the operation of Provincial finance. Rather than resort to such a grave measure the Government of India happily hit upon grants-in-aid of particular services as a powerful and well-tried[1] corrective to the negligence of the Province, and require it to maintain a "national minimum" in those services which it regarded as onerous rather than beneficial.[2] Convinced of the virtue of grants-in-aid as a brake on decentralization degenerating into disintegration, the Commission only recommended that measures be taken to give Provincial Finance the greatest elasticity possible by diminishing the assignments to the smallest magnitude possible.

Following the recommendations of the Commission the Government of India decided to make certain modifications in the existing allocation of revenue and charges and to make the quasi-permanent settlements permanent settlements from the year 1912. The permanent settlements did not differ from the quasi-permanent settlements which they superseded in any material point so far as the principle of allocation was concerned. The only point of difference between them in that respect was a partial replacement of the fixed adjusting assignments by increased shares in the following joint heads of revenue and expenditure :—

Modifications in Shares

Revenues		Expenditure	
Heads of Account	Provincial Share	Heads of Account	Provincial Share
1. Land Revenue including the portion credited to Irrigation.	$^5/_8$ to Burma ½ Punjab	1. Land Revenue	$^5/_8$ Burma ½ Punjab
2. Excise	Wholly in Eastern Bengal and Assam, Bombay. In C.P., Bengal and U.P., $^3/_4$	2. Excise	Same as in revenue column.
3. Assessed Taxes (P.W.D.)	½	...	...
4. Forest	Wholly.	4. Forest	Wholly
5. Major Irrigation works (excluding portion of Land Revenue credited to it).	½ in Punjab, minimum of 4 lakhs guaranteed.	5. Major Irrigation	½
6. Major and Minor Irrigation.	½ in Bengal	6. Major and Minor Irrigation.	½ in Bengal

[1] It is possible that the system was borrowed from England.

[2] S. Webb, *Grants-in-Aid,* 1911, p. 25.

The effect of these modifications in the shares in the joint heads of revenue and expenditure was to reduce the adjusting assignments to the following figures :—

Province	Assignments in Lakhs of Rupees from Imperial to Provincial	From Provincial to Imperial
Central Provinces	21.40	...
Burma	13.12	...
Eastern Bengal and Assam	13.55	...
Bengal	...	18.40
U.P.	...	19.26
Punjab	6.77	...
Madras	...	21.43
Bombay	...	9.38

During the permanent as during the quinquennial and quasi-permanent settlements the grants-in-aid of specific services, unobjected to as they were by the Decentralization Commission, were continued to be given to the different Provinces throughout the period although, as may be seen from the following figures, in a continually diminishing magnitude :—

Special Grants-in-Aid (in rupees)

Provinces	1912-13	1913-14	1914-15	1915-16	1916-17	1917-18	1918-19
CP. ...	4790480	2643264	5138256	4407802	3795784	3817540	2726008
Burma ...	8538948	2263939	3849763	3869472	216979	—2478482	2490
Assam ...	5530991	3283011	7533878	6577619	2497861	1922252	2444730
Bengal ...	15401885	6480800	7594894	7186436	6538732	7074773	9889717
Bihar & Orissa	6379420	4761028	3526567	4278854	3262214	4235205	4179425
U.P. ...	11470603	8542279	3842624	3229924	2453969	2706164	3590530
Punjab ...	6700924	2424404	3988117	5908923	4925830	4862616	5563665
Madras ...	12277591	5066343	1697803	1220785	1099165	1483708	1577446
Bombay ...	11192723	3996729	1468837	1200254	1065964	1154725	2479510
Total ...	82283565	39461797	38640739	37880069	25856498	24778501	35453521

Compiled from the Annual Finance and Revenue Accounts of the Government of India.

It was natural that the results of the permanent settlement should have been more anxiously awaited for with great interest by the Provinces, for the permanent settlement had the potentiality of a permanent gain or a permanent loss. That their anxiety on that score could not out have been completely allayed is amply supported by the repeated surpluses that meet the eye as it passes over the following figures of annual additions to and deductions from their balances during the period of its currency :—

PROVINCIAL SURPLUSES OR DEFICITS (IN RUPEES)

Provinces	1912-13	1913-14	1914-15	1915-16	1916-17	1917-18	1918-19
C.P. ...	5085246	1881245	—6544416	—13836	4235704	1870517	920121
Burma ...	8874174	914026	—3729808	1896621	9427702	12067708	4873587
Assam ...	3610494	—2217691	—4550789	658812	6044904	2800634	435872
Bengal ...	14705270	480842	—3967607	1028156	3708638	5280082	732237
Bihar & Orissa	7022199	—920062	—1870264	1133562	5919907	7176786	3643564
UP. ...	9588749	50704	—4611080	—973090	3427808	—2268311	3686945
Punjab ...	7411069	—692512	—3730641	—1133541	500995	—695216	1185930
Madras ...	4330275	—5298411	—1207754	318508	2571241	1042303	—972354
Bombay ...	7083281	1558566	—2639924	—951099	122434	611321	1681066

Compiled from the Annual Finance and Revenge Accounts of the Government of India.

While the condition of Provincial Finance was thus undoubtedly prosperous, the erratic movements in the provincial balances do not quite bear out the hope of orderly progress that was entertained of the permanent settlement. It should be noted, however, that the period during which the permanent settlement was current was not wholly a normal period. Part of the permanent settlement was no doubt a peace period, but it was not even as long as a quinquennium, and it should not on that account detract from the merits of a permanent settlement if it disclosed the faults of the quinquennial settlements. Most of the period covered by the permanent settlement was, however, a period of the Great War, the abnormal events of which could not have had any but disturbing effects on Provincial Finance.

Whether the permanent settlements would have been adequate for the purpose in view if sufficient length of time had been allowed for conditions to have become settled it is not given to us to say. For, from April 1, 1921, provincial Finance in British India entered on an entirely new phase. That phase of it will be dealt with in another part. Here the study of the growth of Provincial Finance as it developed stage by stage under the old phase comes to an end. But this study will not be complete until we deal with the mechanism which inter-related the finances of the Central and Provincial Governments under the old phase. But before we proceed to do so it might be of interest as well as of value that the study of the final stage in the development of Provincial Finance were to close with the following retrospect of provincial revenue and expenditure which shows, as nothing else can, the small beginnings, the large strides and the vast proportions that Provincial Finance had reached during the half century over which it had been allowed to run its course.

●●

GROWTH OF PROVINCIAL FINANCE

Provinces	Provincial Revenues As a percentage of the total Revenues of India						Provincial Expenditure As a percentage of the total Expenditure of India					
	1871-2	1882-3	1892-3	1904-5	1912-3	1918-9	1871-2	1882-3	1892-3	1904-5	1912-3	1918-9
C.P.	.655	1.055	.863	.905	2.52	1.715	.652	1.008	.87	.984	2.19	1.685
Burma	.572	1.66	2.256	3.023	4.73	3.57	.592	1.914	2.16	3.31	4.14	3.15
Bengal	2.8	5.9	4.72	4.12	5.56	4.00	2.7	6.68	4.52	4.26	4.56	3.84
N.W.P. and Oudh	1.99	4.16	3.6	...	...	...	2.04	4.4	3.32	...	...	...
Punjab	1.66	1.59	1.888	2.08	3.96	3.11	1.55	2.165	2.03	1.83	3.47	2.81
Madras	1.595	3.32	3.3	2.88	6.27	4.75	1.61	3.24	3.4	3.09	6.1	4.53
Bombay	1.8	4.9	4.49	4.05	6.17	5.45	1.836	5.08	4.4	3.77	5.7	5.00
Assam	...	.61	.738	.597	1.38	1.00	...	.505	.617	.618	1.13	.857
U.P.	...	...	...	2.99	5.5	4.15	...	...	...	3.01	4.87	3.94
Bihar and Orissa ...	...	...	...	...	2.6	1.9	...	...	...	...	2.11	1.775
Total Provincial ...	11.11	22.8	21.75	20.4	38.6	29.2	10.8	25.00	21.3	20.8	34.3	27.6

Complied from the Annual Finance and Revenue Accounts of the Government of India.

PART III

PROVINCIAL FINANCE : ITS MECHANISM

CHAPTER VII

THE LIMITATIONS OF PROVINCIAL FINANCE

To those who might be expected to have a knowledge of the anomaly—unparalleled in the annals of administration—involving the existence of provincial Government without there being the necessary complement of Provincial Finance, the study could not but have been of profound interest as disclosing the manner in which the anomaly created in 1833 was rectified or seemed to be rectified in 1870.[1]

[1] There, however, prevails the idea that Provincial Finance existed long before 1870, But this is undoubtedly an error which may as well be corrected in this place by briefly recalling the history of financial decentralization prior to 1870. The year 1855 will always stand preeminent in the history of decentralization of Indian Finance. It is from that year that Local Finance dated its origin. It must not, however, be supposed that prior to 1855 there were no local revenues. On the contrary, there were very small funds such as Ferry Funds, Toll Funds, Cesses, etc., in existence and were spent on improvements of local utility, but the important point to note is that the balances from such funds were not carried to a separate account but as a rule merged in the general balances of the country, with the exception probably of Bengal and North-Western Provinces, where it seems that such balances were carried to separate Local Fund Accounts (cf. *Calcutta Review,* 1851, Vol. 16, pp. 464 and 466). It was by the Financial Resolution of May 11, 1855, that Local Funds were completely separated from Imperial Funds and were treated as "Deposits"—a sub-division of the Account Head "Debt" (cf. *Accountant's Manual,* by Y. Venkatramaiah, Part I, Madras, 1866, p. 79) and by the Resolution of September, 1863, Local Finance was established on a separate footing by the institution for each of the different provinces of a distinct Local Fund Budget as separate from the Imperial Budget. It so happened that in the absence of local authorities the Government of India entrusted the task of the preparation and execution of the Local Funds Budget to the respective Provincial Governments as being more in touch with local wants. It is this accident that has betrayed many into the supposition that this was essentially Provincial Finance. But nothing can be a greater blunder. What existed before 1870 was Local Finance, pure and simple, although *under* the supervision of the Provincial Government, in whose hands the Local Funds were essentially a kind of trust. The mere bringing together by the Provincial Governments of the receipts and charges pertaining to the Local Funds into a Local Fund Account for the whole Province can hardly be interpreted to mean the amount to be at their disposal—and that is the only sense in which Provincial Finance can be a reality—any more than the bringing together of the Local Rates levied in the United Kingdom in the budget of the Chancellor of the Exchequer can give an indication of its financial position. The Local Funds were not at the disposal of the Provincial Governments, for they could not be disposed of on purposes other than those which attached to them. In this sense they constituted Local Finance and not Provincial Finance. Some people mistake it for Provincial Finance probably because the term "Local Government" is used as a synonym for Provincial Government. But, while Local and Provincial Governments are often used as interchangeable terms, it must be remembered Local and Provincial Finance cannot be so used. As a matter of fact, there was a period in the history of Financial organization in India during which there was Local Finance without Local Government to be precise, and there was no Provincial Finance, even though there were Provincial Governments. It is probable that, as long as the habit of speaking of Provincial Government as Local Government continues, this confusion of ideas will not entirely vanish. While some have insisted that Provincial Finance had its being long before 1870, the Resolution of December 14, 1870, which instituted the scheme of Provincial Finance, is called "Resolution on Local Finance" as though it gave rise to Local and not Provincial Finance. Such absurdities can be avoided only by insisting upon precision of terminology.

On a purely a priori consideration of the matter, nothing could have been more natural than to suppose that the system of Provincial Finance thus established in British India was independent in its organization. Indeed it is difficult to imagine how one could emerge from the study of its origin and development without such a faith having silently grown upon him. But if Provincial Finance was independent in its organization, we should find the Provinces in possession of financial powers which are commonly associated with the functioning of independent States. For the immediate purpose of finding out whether or not Provincial Finance was an independent system of finance, we may take the freedom of budgeting and everything that is involved in it as an evidence of the existence of these powers. Independent budget powers would involve the power to determine the services which, according to the needs of the country, a good government should undertake, and to decide upon the mode of raising either by taxation or loan sufficient money to meet the expenditure upon those services. Alongside these powers the budget: system entails the obligation of keeping accounts and submitting them to independent audit.

Applying these tests to the Provincial Budget, the origin and growth of which have been treated in the foregoing parts of this study, we cannot predicate a tithe of the independence which characterizes the budgets of sovereign States. On the contrary, the budget system introuced into India with regard to the different Provinces was accompanied by the most stringent limitations. They were given a budget *without its powers,* and they bore the obligations of accounts and audit just because they were left free within the limits of their budgets. Why these limitations were imposed will be explained when we come to scrutinize the ways of enlarging the scope of Provincial Finance. it must, however, be emphasized that these limitations formed an integral part of the scheme, and the stringency of the former had grown *pari passu* with the scope and proportions of the latter. In fact they defined the law of the Constitution of Provincial Budgets. A complete comprehension of the operation of Provincial Finance in British India is therefore not possible without a thorough knowledge of its rules of government. Such being the importance of these rules it cannot but be to our advantage to analyse them at this stage.

These rules were laid down on various occasions during the interval between 1870, when the scheme of Provincial Finance came into being, and 1912, when the scheme reached through an evolutionary process its final and permanent stage, in the form of Resolutions of the Government of India in the Department of Finance. The rules framed in 1870[1] were few and simple. Nor was there any necessity for a complex code to govern the operation of the very meagre budgets which were then constituted. Many supplementary rules were issued afterwards to dispose of unforeseen cases of order and procedure; but it was not till 1877[2] that we come across a most elaborate set of rules and regulations governing the financial transactions of the provincial Government. The Rules of 1877 were the basis of all those that were subsequently issued. With very small addenda or corrigenda they remained in force for a period of fifteen years, when they were superseded by a new series of Rules promulgated in 1892.[3] But only within a short span of a quinquennium this series was replaced by another issued in 1897,[4] and the latter formed the governing body of Rules till the year 1912, when a new series was brought out to regulate the working of the permanent settlement made in that year.[5] The same was reissued in the Financial Department Resolution No. 361 -E-A. dated July 24, 1916. But as the alterations therein were not in any sense consequential, the series of 1912 may be taken as laying down the final regulations of Provincial Finance.

Recognize as we must the necessity for analysing the rules, we must determine beforehand the point or points of view from which to conduct the analysis. It must be premised at the outset that the object of entering upon the examination of the Rules is twofold : (1) to know what limitations there were and (2) why they were placed. Our immediate interest, it is true, is to state what limitations there were, but this is only a preliminary, if not a minor, object. The second is really the more important of the two. It is only as an aid to the proper understanding of the causes of the necessity for these limitations that a knowledge of them is to be sought. While keeping in our mind the immediate object of stating the limitations, it will be unimaginative not to foresee that in the following chapter,

[1] Financial Department Resolution No. 3334 dated December 14, 1870.

[2] Financial Department Resolution No. 1709 dated March 22, 1877.

[3] Financial Department Resolution No. 1142 of March 17, 1892.

[4] Financial Department Resolution No. 3551 dated August 11, 1897.

[5] Financial Department Resolution No. 249-E.A. dated July 15, 1912.

in which we shall be presently engaged, we will learn that the necessity for these limitations arose from the very peculiar nature of Provincial Finance itself. On the other hand, it is important to anticipate this conclusion, and instead of producing the Rules *seriatim* as they occur, arrange them in such a way that they shall be an external register of the internal conception of Provincial Finance which particularly pervaded the minds of its promotors. For the consummation of this end, the labours of the officials in charge of Provincial Finance who have laid down these rules are of no avail. To them these rules were only instruments of financial control, and it did not therefore matter in what order they were grouped. On the other hand, to get at the conception behind these rules it is necessary to classify and group them according to the purposes they were calculated to subserve. But the cardinal point in the matter of classification lies in defining the likely purposes which the originators of such an interrelated scheme of Provincial Finance as obtained in India must have had in view. Without being at all dogmatic, it may be said that for a successful working of such a scheme rules would have to be laid down for the purposes of defining (1) the Administrative and (2) Financial Powers of the Provincial Government. Each of the two categories may be further subdivided for a clearer understanding of the nature of Provincial Finance. Thus the Rules relating to Administrative Powers may be further subdivided into those pertaining to (i) Services and (ii) Staff. Similarly the Rules defining the Financial Powers may be conveniently grouped under the following subsidiary categories : Those (i) of a general nature and those pertaining to (ii) Provincial revenues; (iii) Provincial Expenditure, (iv) Budget Sanction and (v) Audit and Account.

Taking purpose as the *fundamentum divisionis,* the above categories may be supposed to exhaust the possible purposes that the framers of the scheme may be said to have had in mind. On the basis of these categories we may therefore proceed to reduce the amorphous mass of Rules into a digest which, it may be hoped, will be convenient and instructive at the same time.

I. Limitations on Administrative Powers

(1) *Rules of Inter-Provincial Services*

For regulating the inter-provincial or inter-departmental relations affected by the creation of separate budgets for the different

Provinces, it was ordained that—

(i) No inter-provincial adjustments were to be allowed.

(ii) No service previously rendered to other Departments at the charge of the Department made over to the control of the Provincial Governments was to be abolished, and no service previously rendered to these departments at the charge of other departments was to be increased.

(iii) No line of through communication was to be abandoned or allowed to fall out of repair.

(2) *Rules pertaining to Staff*

As to the staff engaged in the execution of the provincialized services the Provincial Governments were enjoined *not* to—

(i) Create a permanent appointment or augment the pay and allowance of any appointment.

Prior to 1912 this applied to appointments with a pay of Rs. 250 a month and above.[1] But after 1912 it applied only to appointments ordinarily held by a Gazetted Officer or by an officer of the Imperial Service as defined in Article 29-B of the Civil Service Regulations.[2]

(ii) Create a temporary appointments *or* deputation for an Officer.

Prior to 1912 this applied to appointments with a pay of Rs. 250 a month and above.[3] But after 1912 it applied to such of the appointments the remuneration of which exceeded Rs. 2,500 a month, or Rs. 800 a month, if the temporary appointment or deputation was expected to last for more than two years.[4]

(iii) Abolish a permanent appointment or reduce the pay and allowances of such an appointment.

This rule was in the beginning applied to such appointments the remuneration of which exceeded Rs. 250 a month.[5] After 1912 it was confined to such appointments as were held by Gazetted Civil Officers recruited in England or as were defined by Article 29-B of the Civil Service Regulations.[6]

(iv) Grant to a Civil officer in Government employ or in receipt of a service pension.

[1] Rule 4 (3) (*a*) of 1897.

[2] Rule 10(1) of 1912.

[3] Rule 4 (3) (*b*) of 1897.

[4] Rule 10 (4) (*a*) of 1912.

[5] Rule 4 (4) of 1897.

[6] Rule 10 (3) of 1912.

(*a*) *Land,* except where the grant was made under the ordinary revenue rules of the Province concerned without involving any special concession in money or its equivalent beyond the fact that the grantee received the grant in preference to others.[1]

or (*b*) An assignment of Land Revenue when the amount exceeded Rs. 600 a year, or the assignment, though within that amount was not limited to three lives and reduced by one-half on each succession. All grants as assignments of Land Revenue made by Provincial Governments to civil officers were to be confined to cases in which the services were of a very distinguished and exceptional character.[2]

(v) *Revise* (*a*) permanent establishments which involved additional expenditure exceeding Rs. 50,000 a year; or (*b*) rates of substantive pay of any one branch of the service at a cost to that service alone of more than Rs. 25,000 a year, or (*c*) the average pay of a service of which the maximum pay exceeded Rs. 500 a month and raise it above the average rate approved at the last revision of the service by the Secretary of State or the Government of India, or (*d*) the local allowances as compensation for dearness of living or for increase of rents in any localty.[3]

II. Limitations on Financial Powers

(1) *General*

Before actually detailing with the limitations on the financial powers of the Provincial Governments it is necessary to recall that the financial settlements made with the Provinces consisted in handing over to them certain *heads* of revenue and expenditure. From this accidental feature it is not to be supposed that the settlements were a collection of separate settlements for each head of revenue and expenditure incorporated into the Provincial Budget. To obviate such a construction by the Provincial Governments and the consequences thereof, it was ruled that—

(1) The Provincial Governments were to understand that the funds assigned to them formed a consolidated grant for all the services *en masse* entrusted to their respective administration and that no claim could therefore lie against the Imperial

[1] Rule 10 (9) (*a*) of 1912.

[2] Rule 10 (9) (*b*) of 1912.

[3] Rule 10 (6) of 1912.

treasury on the ground that the actual cost of any service exceeded the amount at which it was estimated in the calculations of the consolidated grant.[1]

(2) And they were not to make any extra demands on the Imperial treasury, but were bound to maintain from the funds given to them all the services entrusted to their management in a state of administrative efficiency.[2]

With regard to the powers of the Provincial Governments concerning the custody of their funds it was ruled :—

(3) That the funds allotted for their use were to be lodged in the Imperial treasury, and were not to be removed for investment or deposit elsewhere; nor were the provincial Governments competent to withdraw such money except for expenditure upon the public services.[3]

(2) *Revenue Rules*

Turning from the general limitations to those pertaining to the revenues of the provinces, it should be noted that they were required to maintain themselves within the funds allotted to them by the Central Government at each settlement.

The provinces could not *augment their* resources beyond the yield due to their natural growth by any possible means, for it was provided that Provincial Governments were—

(i) Not to impose any additional taxation or make any change in the existing system of revenue management.[4]

(ii) Not to alter or augment within its area the rates of discount upon the retail of Stamps, Court Fee labels, and duties on spirits and drugs.[5]

(iii) Not to raise *for its own* finances any loans in the open market.[6]

Powerless in the matter of augmenting their resources, the Provincial Governments were not free to will them away to any other authority subordinate to them. To guard against such eventualities it was ruled that Provincial Government were—

[1] Rule 7 of 1877 and 14 of 1897.

[2] Rule7 of 1877 and 14 of 1897.

[3] Rule 1 (8) of 1877, 4 (11) of 1897, and 5 (6) of 1912.

[4] Rule 1 (1) of 1877 and subsequent Resolutions.

[5] Rule 1 (6) of 1877, also embodied in subsequent Resolutions.

[6] Rule 5 (13) of 1912. It is surprising that the various resolutions on the subject of provincial Finance prior to 1912 do not contain this ruling, though it cannot be doubted that it has been in operation since the commencement of provincial Finance. In the absence of a specific ruling prior to 1912, attention may be invited to the Resolution reviewing the Financial Statement for 1879-80, where it is said "so long, therefore, as a Local Government does *not incur debt* (*which is absolutely forbidden*), there is etc., etc." F. S. 1878, Calcutta, p. 5.

(iv) Not to alienate any item credited to the general revenues, Imperial or Provincial, so as to form an asset of a Local or Special Fund.

This provision as regards the non-alienation of the resources of revenue made over to the provinces was a little relaxed by the Rules of 1912 so that it was permissible for them to assign to a local body or special fund, as defined in Article 33 of Civil Service Regulations, constituted by law, petty items of Wholly Provincial Revenue of a recurring character, not derived from the proceeds of general taxation and not yielding on an average more than Rs. 25,000 a year.[1]

(v) Not to make grants, subventions or assignments from the funds at their disposal to Local or Municipal bodies so as to create a permanent charge on the revenues of India.

This by no means prevented grants, subventions or assignments from being made to local or municipal bodies by the Provincial Governments from their funds although the Government of India had sounded to them a note of warning by declining to bind itself to continue the grants after the expiration of the settlements or to provide for them in the succeeding settlements.[2] By the Rules of 1912, however, the power of making such grants was more clearly circumscribed so that a Provincial Government could not make (1) recurring grants to local bodies from provincial revenues exceeding Rs. 1,00,000 a year in any one case,[3] or (2) non-recurring grants to local bodies exceeding Rs. 10,00,000 in any one case,[4] or (3) a grant to a charitable or religious institution other than educational, not being outside India, in excess of Rs. 10,000 , a year if recurring, and Rs. 50,000 if non-recurring.[5]

(vi) Not to make any grants to non-official (1) on political considerations of (a) land, either free of revenue, or on favourable terms, or (b) of assignment of land revenue, if the value of the land or land revenue exceeded Rs. 1,000 a year;[6] (2) on the consideration of injury to himself or to his family in the event of his death during or in consequence of service rendered to Government, or (3) on the

[1] Rule 5 (5) of l912.

[2] Rule 4 (10) of 1897.

[3] Rule 10 (12) (*a*) of 1912.

[4] Rule 10 (12) (*b*) of 1912.

[5] Rule 10 (10) of 1912.

[6] Rule 10 (7) of 1912.

consideration of exceptional services to the Government of a pension exceeding Rs. 1,000 a year or a gratuity exceeding Rs. 3,000 in any one case.[1]

(3) *Rules of Expenditure*

The powers of sanctioning expenditure granted to the Provincial Government were as limited as their revenue powers. While they were free to spend their funds on the services entrusted to them, certain limitations were laid down for the purposes of expressly ruling out certain objects and subjects of expenditure from the provincial domain.

With regard to the *objects* of their expenditure Provincial Governments were required—

(i) Not to sanction any expenditure from public money on anything outside the category of objects of expenditure recognised by the Government of India.[2]

(ii) To confine themselves to the carrying on of the services particularly entrusted to them by the terms of the settlement.

Prior to 1912 they could undertake a "new general service or duty" only if they satisfied the Government of India that they could provide the necessary funds temporarily if it was temporary, and permanently if it was permanent.[3] This provision was altered in 1912 so that a Provincial Government could undertake a new general service or duty provided it was not (*a*) of an unusual nature, or (*b*) devoted to objects outside the ordinary work of administration, or (*c*) likely to involve at a later date expenditure beyond its powers of sanction.[4]

(iii) Not to spend—

(a) On State ceremonies and assemblies, and on the entertainment at the public charge of distinguished visitors to India more than Rs. 1,00,000.[5]

[1] Rule 10 (8) of 1912.

[2] Rule 11 of 1897, also embodied in subsequent Resolutions.

[3] Rule 4 (2) of 1897.

[4] Rule 5 (11) of 1912.

[5] Rule 10(11) of 1912.

(*b*) On Railway Carriages especially reserved for the use of high officials otherwise than in connection with the maintenance of the carriage.[1]

(*c*) On the purchase of a Motor-car or Motor-cycle for the use of an official, or on the maintenance of it otherwise than from the "Contract Grant" with the Head of the province.[2]

(*d*) On the increase of the "Contract Grant" to the Head of the province.[3]

(*e*) On the construction or purchase of a vessel required for inland navigation and for use at ports, the cost of which exceeded Rs. 1,00,000.[4]

(*f*) On an Irrigation or other Public Works projects of which the estimated cost chargeable to the general revenues exceeded Rs. 20,00,000 inclusive of establishments, tools and plants. It was however competent for a Provincial Government to spend up to an amount 10 per cent. in excess of the original sanctioned estimate provided such excess was not more than Rs. 12 ½ lakhs inclusive of establishment, tools and plants.[5]

As to the limitations respecting the subjects of provincial expenditure, it was ruled that in virtue of the application of the general condition precedent to the delegation of all authority to disburse public money, that it shall be bona fide for a public purpose, Provincial Governments could not spend from their funds for benefiting—

(i) Any individual or body of private persons unless in accordance with some declared or established rule or principle recognized by the Government of India.[6]

(ii) Native States, directly beyond Rs. 10,000 a year on any one project or Rs. 50,000 if non-recurring.[7]

[1] Rule 10 (4) of 1912.

[2] Rule 10 (6) of 1912.

[3] Rule 10 (15) of 1912.

[4] Rule 10 (17) of 1912.

[5] Rule 10 (18)of 1912.

[6] Rule 10 of 1877, also embodied in subsequent Resolutions.

[7] Rule 10 (13) of 1912.

(4) *Budgetary Rules*

Besides being subject to the ordinary rules of the Budget System introduced into India for the first time by Mr. Wilson in 1860,[1] by which they were required to submit their budget estimates for sanction to the Government of India, and to observe the rules of appropriation in the execution of the grants, Provincial Governments were further given to understand that without the previous consent of the Government of India they—

(i) Could not exhaust their balances in the Imperial Treasury.

Prior to 1887 a Provincial Government could propose in its budget estimates to draw upon the whole of its balance. But by the Rules then framed the Provincial Government was required to maintain at all time a certain minimum balance in the Imperial treasury, the amount of which varied with each successive settlement.

(ii) Could not budget for a deficit, that is for provincial expenditure in excess of the provincial revenues of the year.

The stringency of this rule[2] was a little softened, so that a Province could after 1912 budget for a deficit, if it satisfied the Government of India that the cause was exceptional and non-recurring,[3] but it was at the same time provided that, if this drawing upon the balances to make up the deficits resulted in reducing the balance below the prescribed minimum, the budget for a deficit would be sanctioned only if the Government of India was able to allow the Provincial Government in question an overdraft to the extent necessary to restore the balance to the required minimum from the general balances to be repaid in such rates of interest and instalments as may be prescribed.[4]

(iii) Could not exceed during the currency of the year the expenditure on any head of account as finally sanctioned for it, for that year, by the Government of India.

[1] Rule 11 of 1892, 13 of 1897, and 19 of 1912.

[2] Rule 8 of 1892.

[3] Rule 21 of 1912.

[4] Rule 21 and 22 of 1912.

It could increase the expenditure only if the increase was counterbalanced by re-appropriation, that is, reduction by the amount of the excess of the sanctioned grant under some other head of account under its control.[1] The powers of reappropriation of Provincial Governments were very extensive, for it could sanction re-appropriation between the grants for provincial expenditure included in its budget, whether under a Wholly Provincial or a Divided Major or Minor Head provided that the aggregate grant of provincial expenditure was not exceeded.[2]

(5) *Rules of Audit and Account*

Though the Provinces were allowed considerable powers of re-appropriation within their budgets there was imposed upon them the obligation of audit and accounts of the money they spent. The important point to note in this connection is the fact that this obligation of the keeping of accounts and submitting them to audit was an obligation which the Provinces did not owe to their legislatures, but was an obligation which they owed to the Government of india, who had conferred upon them the financial power they exercised. Moreover, the Government of India did not leave the Provinces to discharge this obligation according to their own sweet will by employing their own audit and account staff. On the contrary the responsibility of realizing this obligation was entrusted to the imperial officers of audit and account stationed in the different Provinces, who acted as the critics and guides of Provincial Governments in the matter of administration and interpretation of the Rules discussed above. To facilitate their task Provincial Governments were instructed—

(i) Not to make any alterations in the form of procedure of public accounts,[3] or direct the division of a charge between two or more heads of account. In all such matters they were to abide by the decision of the Comptroller General—an officer of the Imperial Government.[4]

[1] Rule 24 of 1912.

[2] Rule 25(1) of 1912

[3] Rule 1 (a) of 1897 also embodied in subsequent Resolutions.

[4] Rule 4 (2) of 1897.

(ii) To transmit the objection of the Imperial audit officer against its appropriation or sanction with regard to expenditure with the explanation of the Provincial Government concerned to the Government of India for final disposal.[1]

Such were the limitations on the Financial Powers of the Provincial Governments. Apart from these specific limitations the Provincial Governments were not altogether the free architects of their own destiny within the sphere allotted to them; for it was provided that the power of supervision and control in any Department still rested in the Governor-General in Council, and that the Provincial Governments should keep him fully informed of their executive and financial proceedings so as to enable the former to discharge its obligations for peace, order and good government.[2] Their general effect on the finaicial freedom of the Provinces could hardly have been concealed. It must therefore have been a most impervious mind which in face of these paralysing limitations had not lost its faith in the independence of the system of Provincial Finance and had not asked what was after all the nature and advantage of this illusive institution ?

[1] Rule 30 and 31 of 1912.

[2] Rule 5 of 1877; Rule 15 of 1897 ; and Rule 6 and 7 of 1912.

CHAPTER VIII

THE NATURE OF PROVINCIAL FINANCE

The study of Provincial Finance cannot be said to be complete unless it furnishes a true answer to the question which is bound to be asked in the end. What was the resulting financial relationship under the old scheme between the Central and Provincial Governments in British India? The question is an important one, for the validity of the criticisms and proposals with regards to Provincial Finance, or any subject for that matter, depends entirely upon a correct understanding of its nature. Unfortunately it had not received the attention that its importance demanded, and consequently we find the rather distressing fact that no subject was so confidently discussed, and yet none was so grossly misunderstood, as that of the nature of the old system of Provincial Finance in British India. It therefore becomes necessary to explain what was the exact nature of the system of Provincial Finance established in British India.

In an inter-related system of polities, such as is composed of Central and Provincial Governments in British India, it is always difficult to grasp the exact nature of their financial relationship; for, what may appear on the surface may be very different from what it may really be. None the less, the view was commonly held that the Indian system was based on a separation of sources between the Provincial and the Central Governments, and contributions from the yield by the former to the latter, much the same as was found in the federal system of finance which obtained in the German Empire. Whether such a view was wrong or right there were various incidents of the relationship between the Central and Provincial Governments in India, which, there can be no doubt, went a long way to strengthen that view. Among such incidents must be mentioned the division of functions between the Central and Provincial Governments. An onlooker could not fail to observe that in this distribution of functions the former controlled matters pertaining to Military Affairs, Foreign Affairs, General Taxation, Currency, Debt, Tariffs, Posts and Telegraph, Railways and Adult and Accounts; while the latter administered matters of ordinary internal administration, such as Police, Education, Sanitation, Irrigation, Roads and Buildings, Forests, and the control over Local Bodies. If this incident encouraged the view that there was a separation of services, there was another incident of the relationship which encouraged the view there was also a separation of revenues between the Central and Provincial Governments in British India. That incident was the collection of most of the taxes in India by the agency of Provincial Governments. As observed by the Royal Commission on Indian Expenditure[1]

> "in the United Kingdom the Revenue Administration is centralized..... under the Chancellor of the Exchequer in London. In India the administration of some branches of revenue is centralized, though not always under the Finance Minister (of the Government of India). That of other branches is decentralized. The Land Revenue is under the control of the Central Department at Calcutta, but that department is subject not to the Finance Minister but to the Minister in charge of the Home and Revenue Departments. The Telegraph Department is under the Minister of Public Works. The Central Government controls the collection of part of the Salt duty and of part of the opium revenue, of Post Office revenue and of other revenues..... The remainder of the revenue is collected by the Provincial Governments.... As regards..... a large portion of the revenue, the Provincial Governments are units of administration and are efficiently equipped for their duties."

As a third incident supporting the same view, reference must be made to the peculiar mode of presenting Indian Accounts adopted in official Blue Books. As might have been noticed, to the General Accounts of the Government of India is attached a supplementary account professing to show the distribution of the different heads of receipts and expenditure among the various Provinces into which British India has been divided. This mode of showing the accounts is beyond doubt misleading. It appears as if the aim was to show the financial position of the Provinces. But as a matter of fact the figures given in the columns in which the revenues and charges are shown in their provincial distribution do not represent the respective claims and responsibilities of the different Provinces. Far from showing the financial position of the Provinces, the figures in the columns merely represent the geographical distribu-

[1] Para 25 of the Final Report.

tion of the different agencies through which the financial business of the Government of India is conducted, and through which the revenues are collected and the expenditure is defrayed. The revenue and expenditure, for instance, shown under "Bombay" represent the income and outgo which pass through the books of the Accountant General of the Government of India stationed at Bombay, and the same is true of entries under the heads of other Provincial Governments. The figures really represent the transactions of the Government of India distributed geographically, and there is nothing provincial about them in the least. However, such a system of account bears the impression that the system of finance in India is primarily Federal.

With these three incidents before one's mind it was easy to fall into a federal line of thinking in reasoning about the financial relationship between the Central and Provincial Governments in British India. So deep seated was the view that the Indian system was one of separation of sources and contributions from the yield, that many witnesses giving evidence before the Royal Commissions on Indian Expenditure (1892) and on Decentralization in British India (1909) sallied forth to assail the Commissioners with the criticisms on the inequity of the system and proposals for amending it according to what they considered to be the requirements of justice. Nowhere have they stated the reasons for their assumptions in explicit terms.[1] Yet their proposals are an unmistakable proof that they held that view. Unless they had taken for granted that the Provinces had separate revenues and separate services, they could not be expected to have wasted their energies in directing as they did their efforts to getting redressed what appeared to them as a piece of injustice embodied in the unequal contributions made by the different Provinces form their revenues to the support of the Central Government.

If their view of the financial relationship between the Central and Provincial Governments was acceptable, then a good deal could not but have been conceded in favour of their criticisms and their proposals. Contributions, if the Imperial share could have been conceived of in such a light, as between the different Provinces whether in ratio to their revenues or population, were certainly unequal if calculated on the somewhat questionable but generally accepted hypothesis that all the revenues collected within a Province belonged to the Province.

[1] Cf., however, Indian Expenditure Commission Minutes of Evidence, Vol. 3, Q. 18094, and Decentralization Commission Evidence, Vol. 2, Q. 9497.

Provincial Contributions to the Imperial Government

Province	Ratio of Amount Surrendered to the Government of India to the Total Revenues raised in the Province.					Ratio of Amount Surrendered to the Government of India per Head to the Population of the Province.				
	1871-2.	1882-3.	1892-3.	1904-5.	1912-13.	1871-2.	1882-3.	1892-3.	1904-5.	1912-13
C.P. ...	.655	.464	.615	.297	.204	.9	.69	1.3	.55	.59
Burma ...	.728	.575	.598	.497	.38	3.4	.39	.7	4.37	3.08
Assam ...	...	.438	.390	.376	...	...	.75	.75	.87	...
Bengal ...	.903	.746	.761	.742	.596	2.4	1.99	2.9	2.29	2.39
N.W.P. and Oudh ...	.785	.617	.435	...	...	1.5	1.24	1.4	...	...
Punjab ...	.768	.648	.726	.512	.391	1.7	1.5	1.4	1.57	1.64
Madras ...	.828	.664	.667	.638	.479	2.3	2.0	2.3	2.34	1.79
Bombay ...	.845	.648	.66	.614	.58	5.0	4.1	5.4	4.75	5.6
U.P. ...	...	...	...	.567	.381	...	...	...	1.48	.93
Bihar and Orissa ...	...	...	...	...	.220	...	...	...	...	.17

Compiled from the Finance and Revenue Accounts of the Government of India and the Decennial Census Reports.

Similarly, whatever may be said of the relative merits of the proposals[1] of changning the system of divided heads of revenue into one of complete separation supplemented in favour of the Central Government by contributions from the Provinces in the form of (1) a fixed sum revisable every few years, or (2) a lump percentage on provincial revenues, or (3) a fluctuating contribution from the provinces on their population, revenues or wealth, there can be no doubt that they were all aimed at reaching some such intelligible basis of distributing the burden of the Imperial exchequer as equality of payment or ability to pay. No one who had cared to scrutinize the true nature of Provincial Finance could have been expected to take these proposals with the same seriousness with which they were offered by their authors. However, strange as it may seem, none of the two Commissions questioned their propriety. The Royal Commission on Decentralization did make it clear, though not quite forcibly, that equal contributions were not necessarily equitable contributions, but neither it nor the Royal Commission on Indian Expenditure challenged the language which spoke of the Provinces as surrendering *their* revenues to make contributions to the Imperial treasury after paying for *their services*. It therefore becomes all the more necessary to examine at some length the grounds which

[1] See *Report of the Royal Commission on Decentralization* (hereafter abbreviated into R.C.D.)

supported that view which argued that the system was based on the principle of separation of sources and contributions from the yield. Indeed the question of equity of contributions would hardly be worth discussion until it is settled that the Provinces had revenues which they could call their own and services for the efficient discharge of which they were primarily liable.

What is the criterion by which to judge whether the provinces had revenues and services which they could call their own? There is, of course, the administrative criterion by which it would be possible to say that anything which a Province administered was provincial. But that criterion cannot be a final criterion. For, whatever may be the view regarding the origin of administrative polities or regarding what their position should be in an ideal organization, yet all regional rights of an administrative polity are in modern times exercised in the main, not in virtue of any social compact or the mere discharge of certain functions, but in virtue of a general law. The question must therefore be decided with reference to the law which defined the status of the Provincial Governments in British India.

Did the Provinces have a legal title to the revenues? Although it is uncertain whether or not those who spoke of Provincial revenues invested the term provincial with a legal status there is no doubt that it had acquired such a connotation in ordinary parlance. Even the Provincial Governments, who ought to have known better, thought and argued that by the provincialization of revenue what the Government of India passed on to them was not the mere usufruct but a title to the revenue. But the Government of India had always been prompt in suppressing such pretences. The facts are patent that provincial settlements were revisable every five years, that the usufruct was not perpetual and that the Government of India could resume it at the end of five years if it wanted. This is made quite clear in answer to the pretensions advanced by the Government of Bengal in a letter No. 284 of January 14, 1882, from which the following is extracted :—

> "For the sake of diminution of friction and other well-known objects which need not be specified, the Imperial Government delegated a share in its administration to Local Governments. It makes a rough calculation that a certain portion of the general income, together with the increment thereon, will suffice to meet

> the expenditure which it retains under its own control, and it hands the rest over to Local Governments, with the obligation to meet out of it certain necessary expenditure.... But it cannot bind itself to this proportion for ever, because the calculation must necessarily be a rough one, and is liable to be vitiated by unforeseen failure of resources, or growths of charges, whether in the share of financial administration which it retains or in that which it delegates. An examination of the appropriation and a readjustment of it in any particular found necessary are indispensable. A surrender of the right to this would be analogous in its nature and effects to the Permanent Settlement of Bengal."

Although anxiety was expressed for the provinces the revisions were primarily conducted in the interests of the Imperial Government as the resumptions incontrovertibly proved, and the Permanent Settlement was delayed because the Government of India did not desire to relinquish its control over its revenues. Under the quinquennial settlement the usufruct was permitted to be undisturbed for five years only. But how tentative was this surrender, which, even for five years, was looked upon as highly impolitic by the Secretary of State,[1] was proved by the Government of India, which did not take back to exercise its inherent right to resume the usufruct of its revenues at any time it liked as is indicated by the not too uncommon levies or benevolences, as they were called, which it forced upon the provincial balances. Not even the Permanent Settlement can be interpreted to mean that the revenues settled upon the different Provinces became their revenues in anything like a legal sense, for in the eye of the law all revenues including those provincialized still remained the constitutional possession of the Government of India. Whether the Government could have effected a legal separation by ivesting itself of the revenues of India in favour of the Provinces is doubtful. The Parliamentary enactment which vests the revenues of India in the Government of India had limited the legislative powers of the Government of India by a clause which prevented it from

> "making any laws or Regulations which shall in any way repeal, vary, suspend or affect any of the provisions of this Act (of 1833).... or the Prerogative of the Crown or the Authority of Parliament."

[1] Cf. Despatches to the Government of India No. 51, dated February 16, 1882, and No. 208, dated July 6, 1882.

At least it is significant that it has required an Act of Parliament to do so. But the Government of India had not made any legal separation of the title to the revenues, and if it could have done that by its own law it could have undone it as well. Nor can it be said that the separation of Provincial revenues involved separate possession. If the Provincial Governments had been allowed to establish their own treasuries to receive the collections from Provincialized revenues, then Provincial revenues in the sense of separate possession could have had a meaning. But by the rules, Provincial Governments were not to deposit their funds elsewhere than in the treasury of the Imperial Government. Consequently the possession of the revenues remained in the hands of the Government of India and the disbursement from the provincial revenues was carried out from the Imperial Treasury by the officers of the Imperial Government. None the less, the view was hard to die. But such an erroneous view was never more confidently stated than by the Honourable Mr. Sayani, and never more forcibly controverted than by Sir James Westland in a passage-at-arms between the two on the occasion of a Budget debate in the Council Hall of the Government of India from which the following is reproduced :—

The Honourable Mr. Sayani said :—

> "The whole theory underlying the system (of Provincial Finance) is that the revenues of the country, far from belonging to the Provinces which raise them or being available for their own requirements.... constitute a common fund to be absolutely at the disposal of the Central Government, out of which it is to dole out what amount it pleases for provincial services."

Catching the condemnatory tone of these comments, the Finance Minister, Sir James Westland, rose to say :—

> "The Honourable Mr. Sayani, if I correctly followed him, stated that the arrangements of the Government of India were made upon the theory that the revenues were not the revenues of the separate Provinces and were not applicable to the expenditure of the several Provinces, but were the revenues of a common fund, the Local Governments being merely the agents of the Government of India for their realization. I think he mentioned the theory in some words like these, only for the purpose of condemning it. Well, I wish to assert that theory in the most positive manner I can. The revenues are the revenues of the Government of India—its Constitutional Possession. The Government of India is a body created by Act of Parliament, and

> if reference be made to that Act of Parliament it will be seen that the revenues of India are the revenues of the Government of India and of that Government alone. Every action that the Local Government takes in respect of them must be justified by a specific order of the Government of India; the Local Governments derive their powers entirely from the Government of India, and apart from that Government they exercise no financial powers whatsoever."[1]

Again, if the financial relationship between the Central and Provincial Governments in India were based upon the principle of separation of sources and contributions from the yield, what ought to have been shown was the existence of legal responsibility of the Provinces for the services they administered. It is true there was a certain division of functions between the Central and Provincial Governments in India analogous to what existed between the Central and State Governments in most of the federal countries. But it must, however, be remembered that this division of functions had no sanction in law and no legal responsibility attached to the provinces for any of the services, not even for those provincialized. The entire responsibility by law rested on the shoulders of the Imperial Government and it could not absolve itself of that responsibility by transferring it on to any of the Provinces. That the Provinces accepted the financial responsibility for some of the Imperial services was their choice. That they could not be compelled to undertake them was proved in a singular manner by Madras refusing to accept such responsibility in 1877. By law it was thus the Government of India which was responsible for peace, order and good government in the country. All services were therefore necessarily Imperial in status undertaken by the Government of India in discharge of its constitutional obligations.

It is therefore obvious that the view which posited that the relationship between the Central and Provincial Governments in British India was one of separation of sources and contributions from the yield was an untenable view. The Government of almost every country in these days is carried on by an inter-related group of polities operating in specific areas and discharging specific public functions ; and it may well be that in any two given countries the number of polities engaged in carrying on the work of government is the same. But it is quite erroneous to argue from that fact that the nature of their inter-relationship must have been alike. It is therefore as well to invite attention to the point that the ordered

[1] Financial Statement, 1897-8, p. 110, etc.

relationship between such inter-related polities depends upon which of them is the law-giving polity. It will be granted that in such group of polities there is one that is supreme in the sense that from a variety of reasons mostly historical it is competent to give law to the other polities. In federal countries it is the State Governments which are the law-giving polities. They occupy a pivotal position. They are the depositories of sovereign powers original as well as residuary. They can claim independent existence, have their own resources and discharge their own functions. The Federal Government, on the other hand, is the creature of the State Governments. It can have no powers and no functions other than those which the States have been pleased to transfer to it by an act of self-abnegation. It is therefore truthful as well as becoming to speak of the financial relationship between the State and Federal governments as one of separation of sources and contributions from the yield.[1] For there the States have their separate resources which they lawfully own and can therefore be spoken of as surrendering their revenues to make contributions to the Central Government after paying for their own services. But the same was inconsistent with the position of the Provincial Governments. Far from pivotal, the Provincial Governments formed the weakest entities in the group of administrative polities functioning in India. Up to 1833 the Provinces had separate rights to surrender in a *foedus* and had the government of India been then organized on a federal basis the position of the Provinces would have been very much the same as those of the States in federal countries. But with the establishment of the Imperial system by the Act of 1833 the last chance of creating a federation in India vanished. By that Act the sovereignty of the Provinces was so entirely crushed that no trace was left of it to permit of a truly federal element ever to enter into their relationship with the Central Government. Since that Act the government of the country has been entrusted to a single authority charged with the sole responsibility for the good government of the country. As no single administration could support the Atlantean load of governing such a vast country with the help of central bureaux, great powers were delegated to the Provincial Governments. But this must not obscure the fact that they were literally the

[1] Of course, it is not necessary that there should be a federal system. A legalized system of decentralization will be equally compatible with separation of sources and contributions from the yield.

"agents of the Government of India." Common usage had elevated the term "Provincial" to a proud position. Along with Provincial Revenues it had been usual to speak of Provincial Services, Provincial Civil Servants, Provincial Courts, etc., as if all these and other things constitutionally belonged to the Provincial Governments. But the usage was full of irony. For, when one recalls the provisions of the constitutional law of the land, so far from thinking of them as Sovereign authorities one felt inclined to say that notwithstanding their high-sounding apparatus of Governors and Councils it was not appropriate to call them Governments. In any case the Provincial Governments had no legal powers or functions which polities designated as Governments have been known to possess. The fact is the Indian system of polity was diametrically opposed to the federal system of polity. It was a centralized system in which there was nothing Provincial; what appeared to be Provincial was but the regional aspect of the Imperial. It was therefore untruthful and overbecoming to speak of the financial relationship between the Provincial and Central Governments in India as being one of separation of sources and contributions from the yield. For here the Provinces had no separate resources which they lawfully owned, and could not therefore be spoken of as surrendering their revenues to make contributions to the Central Government after paying for what may be supposed to have been their own services—a supposition rigorously excluded by the law of the constitution.

If the complex code of limitations discussed in the last chapter had the effect, which it was not unreasonable to expect, of revealing the true nature of Provincial Finance, such a view as the one herein criticized could never have prevailed. That notwithstanding the existence of these limitations there should have been men who instead of wondering as to what remained of Provincial Finance when it was regulated by such limitations, argued with the confidence of the ignorant that the system was independent in its organization, is itself a proof that in their study of Provincial Finance the study of its limitations formed no part. Otherwise a reference to that code would have shown that if the Provinces had separate revenues and separate services they would have had powers of alienating whatever revenues they liked, of spending on any service they desired, of framing their Budget Estimates with a view to any particular policy they decided to adopt, and of arranging for supplementary grants in any manner they chose. But such powers they never had. Indeed no greater proof could be furnished in support of the view that everything had remained imperial in status after 1870, as it was before 1870, than is afforded by these limitations on the working of Provincial Finance.

If separation of sources and contributions from the yield as a theory of the financial relationship between the Central and Provincial Government in India was incompatible with the facts of the case, what theory was there which could be said to have been compatible with the position as defined by law? We may at once proceed to state that the only theory of financial relationship between the two governments which accorded with facts and agreed with law was that of *aggregation of the sources and distribution of the yield.*

It may seem fallacious to speak of aggregation of sources when what the Government of India gave to the Provinces was assignment of revenues and shares of revenues. To this the reply is not difficult. It has already been made clear that Provincial Finance did not involve a *de jure,* separation of sources. Nor was there a *de facto* separation either. For as has been remarked before, all revenues whether assigned or reserved were collected into the Imperial treasury and were thence paid out on all approved Government transactions. Obviously, when all the revenues are thrown into a common pool, it cannot be said without unduly straining the imagination that what the Provinces were given were revenues.[1] The collections from all sources of revenue being inextricably mixed up, the only proper view is to say that what was given to the Provinces were funds. The expressions Budget by Assignments, Budget by Assigned or Shared Revenues are in a certain sense all fictitious phrases. In all the stages of Provincial Finance what the Provinces were supplied with were funds. Under the assignment stage the supply granted was a definitely fixed sum and the only difference made as a consequence of the replacement of Assignments by Assigned or Shared Revenues was that the supply, instead of being a fixed sum, was a sum

[1] The remarks made by Captain Pretyman, M.P., in his evidence before the Royal Commission on local taxation in England with regard to the revenues assigned to Local Governments may be cited in this connection. He said: "I absolutely hold that it is imposible to say that you give a contribution from Imperial Taxation from a particular source. A man might just as well pour a bucket of water into a pond and then go and hook it out again and say that he had hooked out the same bucket of water. The taxes are paid into the Imperial Exchequer and the contribution is made from the Imperial Exchequer, and to say that you select a particular sum of money as the produce of a particular tax and that you hand that over is, I think a fallacious statement altogether." Vol. 1 of Min. of Evid. C. 8763 of 1898, Q. 9873.

which varied in amount with variations in the yield of the Assigned or Shared Revenues. But all the same it was a supply of funds and nothing more. It is even incorrect to say that the Government of India *gave* funds to the Provincial Governments for meeting the expenditure on the services the responsibility for which was undertaken by them. As a matter of fact, the receiving as well as the disbursing of all public money, including the provincial portion of it, remained in the hands of the Government of India. The only proper expression, if it is to be true to facts, would be to say that Provincial Finances simply meant that the Government of India opened a Provincial Services Account in its Treasury books which varied with the yield of the Assigned or Shared Revenues and on which and to its extent only the Provincial Governments were permitted to draw.

Thus there was a complete aggregation of the sources of revenue in the hands of the Government of India. From this fact it follows that instead of the Provinces contributing from their funds it was the Government of India which distributed the yield of its taxes among the Provinces. The situation could not be otherwise. For it should be recalled that in virtue of the Act of 1833 the financial responsibility for the services undertaken to subserve the ends of peace, order and good government rested upon the Government of India. While some of the services were administered directly by the Government of India, owing to the well-nigh impossibility of managing directly from a central bureau the affairs of a country as vast as the continent of Europe minus Russia, many of the services attaching to the Imperial Government were left to be administered under its supervision by the Provincial Government. The weak point of the situation, as has been remarked, consisted in the fact that the administrative and financial responsibility did not rest on one and the same authority as should have been the case. On the other hand at the end of every financial year all Provincial Governments sent in their estimates of the charges for the services they administered to the Government of India in the Financial Department, leaving the obligation of refusing, curtailing or granting the supply asked for to the Government of India to discharge as best it could. Not having the obligation to find the money, the Provinces tended to make extravagant demands. And the Government of India, not being in possession of the details, was unable to judge of the true requirements of each service. Being afraid of failure of its responsibility as much by too little trust as by too much trust in the estimates sent to it, it was often obliged to submit to extravagance of the Provinces, which as we saw brought on the crisis of 1859. To avoid this fatality there was instituted the system of Provincial Finance under which the Government of India distributed its funds among the Provinces, and the Provinces in their turn undertook to manage *some* of the services which they administered for the Government of India *within* the sum which came to them severally out of this distribution.

This being the nature of the financial relationship, the criticisms of the system of Provincial Finance on the ground of inequity were quite inapplicable. Contributions must be according to ability, but distribution must be according to needs in order to make it equitable. If the system of Provincial Finance was to be impeached on the ground of inequity, then it was necessary to have shown that the distribution was unfair. Even here it may perhaps be shown that the different Provinces got different amounts if measured by their population or their area. But it must be remembered that the distribution was not primarily among the Provinces, but among the various departments, whether controlled by the Government of India or by the Provincial Governments. This could make a considerable difference in the equity of the distribution; for, the needs of the areas within the jurisdiction of the different administrative polities must be very different and cannot certainly be held to be coterminous with the needs of the departments maintained under them. The distribution of funds by the Government of India was not based upon the principle of each Province according to its needs but upon the principle of each department according to its needs. It was therefore futile to criticize the equity of the system on any other principle.

Thus interpreted, the system of Provincial Finance must strike as of the nature of what may be called Departmental Finance, something quite different from Decentralized Finance or Federal

Finance. This view cannot be far wrong from the true view as supported by the facts of the case. As in the case of Departmental Finance every Department of the State has a certain grant fixed for it in the Budget and it then draws upon the Treasury to the extent of the grant. In the same manner Provincial Governments were given a certain consolidated grant for the departments they managed and for the expense of which they were to draw upon the Imperial Treasury to the extent of the grant. Notwithstanding Provincial Finance, nothing was provincial in its status. The revenues, the services, the Civil Service, were as strictly Imperial in status after 1870, when Provincial Finance came into being, as they were before 1870, when there was no such thing as Provincial Finance in existence. It is therefore no exaggeration to say that Provincial Finance, instead of being an independent system of Finance involving freedom to tax and freedom to spend, was only a matter of accounts, the operations on the debit and credit side of which were subject to stringent control on the part of the Government of India.

This means that there was no change in the nature of the financial relationship between the Central and Provincial Governments as a result of the introduction of the scheme of Provincial Finance. The relationship of aggregation of sources and distribution of the yield was not a new one but was as old as 1833. It was a financial counterpart of the Imperial system then established. It was because there was no alteration in the relationship that Provincial Governments, even with Provincial Finance, far from becoming separate clocks, each with its own mainsprings in itself, remained as before the departments of the Government of India. Such a conclusion is bound to be regarded as somewhat of a startling character. There can, however, be no doubt that it is true and that no other conclusion is possible, given the legal relationship of the Provincial and Central Governments in British India. But if Provincial Finance is only a matter of accounts then, were there no changes that followed in its wake, in the financial organization of the Imperial system? It would be idle to deny that any change took place in the financial organization of Imperial system owing to the introduction of the scheme of Provincial

Finance, and equally idle to assert that some fundamental change had taken place in consequence thereof. To be just, only two changes worth speaking of may be said to have resulted from the introduction of Provincial Finance :—

(1) Before 1870 balances on *all* services lapsed to the Government of India at the close of the financial year. After 1870 all unspent balances on the services delegated to the management of Provincial Governments remained at their disposal and formed a part of their resources for the ensuing year.

(2) Before 1870 Budget estimates on all services had to be sanctioned by the Government of India and the Provinces could not undertake any reappropriations between the different grants for the year, even if it was found necessary, without the previous sanction of the Government of India. After 1870 the Provinces were left to a greater extent free to distribute their expenditure in any way they thought proper among the various services delegated to their management, provided their total expenditure did not exceed the funds lying in the Imperial treasury to their credit respectively.[1] But by the rules they were required to maintain all the services under thier management in a state of administrative efficiency. Similarly after 1870 the Provincial Government had complete freedom which they never enjoyed before to carry on reappropriations between the grants under their management without the sanction of the Government of India, provided their total expenditure did not exceed the amount budgeted for the year.

[1] Whether they could materially alter the distribution of the grants on the different services delegated to them is doubtful. In his despatch No. 30, dated December 10, 1874, in the Revenue Department, on a proposal by the late Lord Hobart, Governor of Madras, to discontinue the grant made from provincial funds for Roads and to devote the money to education, the Secretary of State wrote ; "I am unable to reconcile it with the principles which govern the so-called provincial administration of the revenue. I am not, indeed, of opinion that the same relative proportion which existed, on the introduction of the system, between the services made over and the expenditure upon them, should always be maintained. But I agree with Mr. Sim, that there was an implied engagement to maintain all these departments in full efficiency and integrity and an implied understanding that no one of them should be wholly sacrificed to the others, or to any other. The new financial arrangements in question were most fully discussed, both by the various Indian Governments as constituted at the time, and by the Home Government. During this discussion it was certainly never suggested that an effect of the change might be to put a stop to the construction of new roads in some parts of India; if such an eventuality had been considered probable, I doubt whether the change would have been made."

For the purposes of visualization the financial relationship between the Provinces and the Government of India may be likened to the Hindu Joint Family System with the Patria Potestas vested in the latter. Before 1870 the similarity between the two was more or less exact. Like the family property of the Hindus the revenues of India were jointly enjoyed by all the departments whether under Central or Provincial management without metes and bounds being fixed to the shares of any one of them. After 1870 the only change that took place consisted in the cesser of commensality and the fixing of metes and bounds to the shares of each in the common property according to their respective needs. The system remained a joint family system, although separate accounts were opened by the head of the family, namely the Government of India, to guard against any member overdrawing the amount placed to his credit.

Were these results worth striving for? On the results achieved in consequence of Provincial Finance a variety of opinion has been expressed. But if we judge of the results as we ought to in the light of the antecedents that gave rise to the system in 1870, it cannot be said that the hopes entertained were in any way belied. It is only when critics, solely because of their misunderstanding of the nature of Provincial Finance, sought for results which were never intended by its promotors that an adverse pronouncement came to be made. But if we keep clear of these misunderstandings and never lose sight of the fact that in 1870 what the Provinces wanted was freedom and the Government of India stability, none can assert that this compromise between Imperialism and Federalism was tried in vain. How great was the freedom gained by the provinces can be appreciated only when it is realized that before 1870 the Governor of Bengal could make

> "no alteration in the allowances of the public servants.... establish a new school or augment the pay of a daroga (watchman) to the extent of a Rupee,"[1]

nor could the Governor of Bombay have a lock made[2] without a vote of the Council of India. Nor can the importance of the large

[1] *Calcutta Review,* Vol. 3, p. 169.

[1] Report of the Committee on the Affairs of the East India Co., 1852, Vol. 10.

measure of stability derived from it be fully realized unless it is borne in mind how before 1870 the Government of India was left between the devil and the deep sea by having to refuse or to accept the bewildering demands ranging from dustbins for a Department to education for the people made by the Provinces on its not too large resources. The Provincial Governments had been saved the delay and the indignity in having to depend upon the Government of India for sanction of the meanest of their wants. The Imperial Government on the other hand was saved the fumbling task of scrutinizing the most trivial of demands and grant or reject it, but always under the apprehension of having done wrong by acting either way. The system not only gave freedom to the Provinces and stability to the Government of India, but had replaced the irresponsibility and extravagance which had proved the bane of the Imperial System by economy and responsibility, for by setting bounds to the funds of the Provincial Governments the Government of India had ended in setting bounds to itself. These results, it is true, did not satisfy the critics of Provincial Finance. More in other directions was expected of it, but that could have been possible only if Provincial Finance was a system independent in its organization. So long as Provincial Finance was a part of Imperial Finance, inseparably linked to it, it could have yielded no greater results than have followed from it, and those that have followed are by no means slight.

There, however, remains the question that, although it was not possible to alter the nature of Provincial Finance, whether it would not have been feasible to enlarge its scope by relaxing the limitations imposed upon it by the Government of India without in any way interfering with the due discharge by it of its own responsibilities. That aspect of the question will be examined in the next chapter.

●●

CHAPTER IX

THE ENLARGEMENT OF THE SCOPE OF PROVINCIAL FINANCE

It used to be made a matter of complaint that the system of Provincial Finance was unjust in that under it the Government of India conscripted, at every revision of the financial settlement, the increases in the revenues given over to the management of the Provinces, either for its own benefit on the pretext of meeting the requirements of the Central Exchequer or for the benefit of such of the Provinces as had by inertia not cared to improve their resources on the pretext of tempering the wind to the shorn lamb. There was a good deal of truth in this complaint in the early period of Provincial Finance. Being the custodian of the funds, the Government of india did often put the consideration of Imperial Services above that for the Provincialized Services. In the early period of Provincial Finance the prevailing idea[1] in the distribution of funds was not how much of the revenues assigned under the expiring settlement could be continued to be usefully spent on heads of expenditure controlled by Provincial Governments, but how much of the general revenues consistently with its obligations, and having regard to the growth of demands upon its resources during the currency of the settlement, could the Government of India surrender for a further period to the Provincial Governments in order to enable them to meet whatever expenditure was essential to the conduct of their administration. This attitude of the Government of India, justifiable as it was by the financial stringency of the period, changed as the financial condition became easy, so that in the latter period

> "the distribution of revenues between the Provincial and Central Governments was made, except on occasions of grave emergency, with direct reference not to the needs of the Central Government but to the outlay which each Province might reasonably claim to incur upon the services which it

[1] Finance Department Resolution No. 458 of January 28, 1881.

> administered. The first step taken in concluding a settlement was to ascertain the needs of the Province and assign revenue to meet them; the residue only of the income of the Province coming into the Imperial Exchequer."[1]

With the shifting of emphasis on the competing needs of the Central and Provincial Governments the complaints on the score of unfair distribution of funds ceased, and no fear of an adverse revision remained when the settlements were declared permanent. There, however, remained the other main objection to the system of Provincial Finance, namely, that the limitations imposed upon it tended to reduce the Provincial Government to a nonentity by restricting the scope of their activity within the field allotted to it.

It was said that if the system of Provincial Finance was inaugurated on the understanding by which the Government of India said to the Provinces

> "Take what we are able to give you, and for the residue take certain powers of taxation and raise it yourself.... for there are subjects which can be dealt with far better by local than by imperial taxation,"

there was no reason why the Provinces should not have been allowed the freedom to tax. Again, if certain resources had been made over to the Provinces, what justification was there in not allowing them to raise loans for promoting purposes of local utility? This restriction was particularly resented; for, it was pointed out that even the humblest Local Authority in India enjoyed the power to raise loans to effect improvements in its respective jurisdiction, while such an important polity as a Provincial Government was deemed unworthy of shouldering such a responsibility. Indeed it was felt as a most galling restriction, for under it it happened that a Provincial Government which was deemed to have enough credit to be accepted as security by the Government of India against loans to other local bodies subordinate to it, was ruled to have no credit to pledge in its own behalf !

What, again, was the justification for limitations on the spending powers of the Provincial Governments in the matter of staff and establishments? If the administration of certain services had been entrusted to the Provincial Governments, why should they have been circumscribed in the matter of

[1] Finance Department Resolution No. 27 dated May 18,1912.

creating new or abolishing old appointments or revising the establishments of their departments? If under the system of Provincial Finance the Provinces were responsible for the services they managed, why should they not have been trusted with powers to make needful changes in the agencies which carried out those services?

Further, it was asked, what justification was there for the limitations on the preparation and execution of the Provincial Budgets ? If separate Budgets had been carved for each of the Provinces out of what once formed an Imperial Budget for the whole of India, why should the Provinces have been required to submit their Budgets to the Government of India? Merely as a matter of conveying information the requirement was comparatively of a trifling character. But why should the Government of India have claimed to alter their estimates and compel them to abide by the grants as fixed by it? Was such a scrutiny of Provincial Budgets a cover for dictating a policy to the Provincial Governments? If this was so, what was the scope for initiative and freedom left to the Provinces which it was the primary object of Provincial Finance to promote and of the permanent settlements to ensure? Again, why should a Provincial Government have been required to come to the Government of India for a supplementary grant as it had to do where the excess over estimates could not be met by reappropriations, even when it had balances to its credit so sufficient as not to be reduced below the required minimum by a draft to meet the excess?

For each of these limitations which fettered the Provincial Governments and contracted the scope of Provincial Finance, the Government of India was of course ready with abundant excuses.[1] In the matter of revenue restrictions it urged that the revenues of India were its constitutional possession for the proper disposal of which it was responsible to the Secretary of State and Parliament. That being the case it was fair that the Government of India should require that the sources assigned to the Provinces should not be alienated nor spent on unauthorized grants or unapproved services. Again, being responsible for all services it followed that the Government of India could not have afforded to weaken its position as to managing the resources of

[1] In this connection, cf. Evidence of Mr. J. S. Meston before the Royal Commission on Decentralization. Mit. of Evid., Vol. X, Q. 44807—45336.

the country by partitioning the taxing or borrowing powers. The field for taxation in India being considerably limited, an indiscriminate levy of taxes by a competing authority, it was feared, would have led either to discontent by additions[1] to the Imperial imposts or to a retrenchment of the field for Imperial taxation. The concentration of borrowing powers in its hands, the Government of India urged, was a natural corollary of the statutory hypothecation of all India revenues to all-India needs. The Government of India could not allow its revenues to be mortgaged by a Provincial Government for its own needs. Besides it was afraid[2] that if this freedom to borrow were granted

> "the temptation to hypothecate revenues in advance might become inconveniently strong, and the future administration of a Province might be starved because a former Government had been in a hurry to proceed with some costly ambitions and non-productive project."

Moreover, the loan market in India, it was said, was as limited as the taxable capacity of the country. Therefore

> "if many buckets are dipping into one well and drought cuts short the supply of water, obviously the chief proprietor of the well must take it upon himself to regulate the drawings."[3]

In the matter of specific restrictions on spending powers with respect to staff and establishments, the defence of the Government of India was that such restrictions were necessary in the interest of uniformity and economy. It was urged that if each province was allowed the freedom to regulate the remuneration of the Public Service which carried on the actual work of administration the result would probably have been unequal pay for equal work. Such a consequence would have engendered discontent in the servants of the State which it was desirable to prevent in the interest of good administration. Again, if the Provinces had been given full freedom to revise establishments it might have resulted in considerable additions to the recurring expenditure of the Provinces, thereby jeopardizing the stability of the Provincial as well as of the Imperial finance, for in the last resort the Government of India was responsible for maintaining the Provincial Governments.

[1] Between 1870 and 18.79, when the Provinces had a freer hand h the matter of local taxation, all of them selected the already overburdened basis of taxation, viz. land for their levy.

[2] *R.C.D.* Mit. of Evid., Vol. X, Q. 45310.

[3] Report on Indian Constitutional Reforms, Cd. 9109 of 1918, p. 94, hereafter called Joint Report.

In the matter of control over the preparation and execution of Provincial Budgets the Government of India urged that the scrutiny was not motivated by a desire to control an unwelcome policy,[1] but was inevitable because of the three important ties by which the Provincial Budgets were bound up with the Budget of the Government of India. These were (1) the incorporation of the income and expenditure of the Provincial Governments into the Budget and the Annual Accounts of the Government of India as an integral part thereof; (2) the system of divided heads of revenue and expenditure, and (3) a common treasury involving a combined "ways and means" for the transaction of the Central and Provincial Governments. The first two points of inter-relation required that the Government of India should examine the Budget Estimates of the Provincial Governments. It was urged[2] that the power to make such alterations was rendered specially necessary by the inveterate tendency of Local Governments to over-estimate their expenditure and under-estimate their revenue. Estimates which departed widely from actuals meant bad finance and also a provision of larger ways and means for the working of the Treasury. But even if this tendency was absent it was incumbent on the Government of India to scrutinize the Provincial Estimates in order to preserve accuracy in the combined accounts. Besides the interests of accuracy, the Government of India had to ascertain by a scrutiny of their estimates that a Province did not impair the stability of its finances by (1) including in its budget expenditure on schemes which had not received due administrative sanction, or was not likely to receive such sanction in time to be incurred during the year; or (2) by entering on an enhanced scale of expenditure a Province was not unduly depleting its balances. But by far the strongest reason why the Government of India needed to scrutinize the Provincial Estimates consisted in the fact that in so far as some of the Heads of Accounts were shared, the ultimate result of the Central Budget, whether there was to be a surplus or deficit, depended upon the accuracy of the estimates. The Government of India, it was urged, was thus directly interested in the Provincial Budgets, and could not have abandoned its right to scrutinize them without exposing its budgetary system to serious

[1] *R.C.D.,* Mit. of Evid., Vol, X, Q. 44981.

[2] *R.C.D.,* Mit. of Evid., Vol. X, Q. 44863.

derangement. The third point of inter-relationship necessitated that the Provincial Governments should work within the grants as fixed finally by the Government of India. To have allowed the Provincial Governments the liberty to exceed the grants because they had ample balances to their credit would have been incompatible[1] with the responsibility of the Imperial Government to provide the ways and means for the whole administration of the country. A provincial balance, it was pointed out, was not a separate balance locked up in a separate provincial chest. It was a part of the general balances on which the Government of India operated daily. If a sudden demand uncontemplated in the Budget were to be made upon these balances, as would have been the case if the Provincial Governments had exceeded their budget grants, it would have disturbed the ways and means transaction and would have involved the Government into insolvency by causing insufficiency of cash.

All these defences of the restrictions on Provincial Governments were plausible defences and could have been decisive if the centralized system of administration in favour of which they were urged could be deemed to have satisfied the ends of good government. But it was not unreasonable to argue as was done by the Provincial Governments[2] that modern tendencies were all moving in the direction of forms of government which placed fullest powers as low down in the administrative scale (i.e. as near the section of population immediately affected) as could be safely arranged. It is reasonable to centralize such powers as could not be efficiently exercised otherwise. But it is equally unreasonable to centralize powers where central control or uniformity is not clearly essential or is impracticable. By centralization all progress tends to be retarded, all initiative liable to be checked and the sense of responsibility of Local Authorities greatly impaired. Besides, centralization involves and must involve a serious sacrifice of elasticity, for it is naturally disagreeable to a central department to have to deal with half a dozen different ways of managing the same branch of administration, and which therefore aims at reducing all types to one. Further centralization conflicts with what may be regarded as a cardinal principle of good government, namely, that when administrative business reached an authority fully competent to deal with it, that authority should deal with it finally. Even when

[1] *R.C.D.,* Mit. of Evid, Vol. X, Q. 44865.

[2] In this connection see the very trenchant memorandum by the Government of Bombay on Decentralization, *R. C. D.,* Mit. of Evid., Vol. VIII, Appendix II.

there is a higher authority equally competent, to pass the business on to it would at best help to transfer power to the hands of the lower ranks of the official hierarchy, by causing congestion of business in the Central Department. Thus centralization, unless greatly circumscribed, must lead to inefficiency. This was sure to occur even in homogeneous states, and above all in a country like India where there are to be found more diversities of race, language, religion, customs and economic conditions than in the whole continent of Europe. In such circumstances there must come a point at which the higher authority must be less competent than the lower, because it cannot by any possibility possess the requisite knowledge of all local conditions. It was therefore obvious that a Central Government for the whole of India could not be said to possess knowledge and experience of all various conditions prevailing in the different Provinces under it. It, therefore, necessarily became an authority less competent[1] to deal with matters of provincial administration than the Provincial Governments, the members of which could not be said to be markedly inferior, and must generally be equal in ability to those of the Central Government, while necessarily superior as a body in point of knowledge.

To these arguments the only reply the Government of India could make was that it concentrated all power in its hands, not from principle but from necessity. That necessarily arose out of its constitutional obligations. The law had invested it with the superintendence, direction, and control of the civil and military government and the ordering and management of the revenues of the country. It could not therefore relax its control over the powers it had delegated to the Provincial Governments. It was, of course, impossible to deny the force of this argument. So long as the Government of India remained the authority solely responsible to Parliament it was reasonable to hold that it should be the controlling authority in all matters pertaining to the administration of the country. But it was equally reasonable to ask whether it would not have been possible in the interests of cordiality

[1] In this connection it may be of interest to draw attention to the semi-serious suggestion made by Mr. A. C. Logan, in which he argued that if decentralization "cannot be effected then there is an alternative method of so remodelling the constitution of the Government of India as to replace the present departments by departments of various local areas each with its own Secretary and Member; thus there should be a department of Bombay with Secretary and Member appointed from that Province dealing with all Bombay questions and the like for other (six) provinces. Thus each Province could govern itself from Calcutta under the supervision of the Governor General,"—*Vide R.C.D.,* Mit of Evid., Vol. VIII, Q. 35531.

between the Central and Provincial Governments to have relaxed such of the restrictions on the financial powers of the Provinces as would not have been incompatible with the due discharge by the former of its own responsibilities. That it was possible so to enlarge the scope of Provincial Finance by a relaxation of the limitations without injury to the position of the Government of India must be said to be evident from the following analysis of the suggestions made by the Provincial Governments. These suggestions were

(i) Power of taxation and borrowing on the security of Provincial Revenues.

(ii) Power of sanctioning expenditure on Staff and Establishments up to a limit higher than that allowed by the Government of India.

(iii) Separation of Provincial Estimates from the Imperial Budget and Accounts.

(iv) Abolition of the system of divided heads of revenue and expenditure and the replacement of it by a system of separation of sources and contributions from the yield.

(v) Power to spend part of their balances up to a defined amount, without the previous sanction of the Government of India in meeting an excess of expenditure over Budget Estimates.

What objections were there, from the standpoint of the constitutional responsibilities of the Government of India, to the grant of these demands? Clearly it was possible for the Government of India to have marked off certain sources of taxation best suited for provincial levy and unconnected with the imperial imposts. Similarly it was possible to have permitted the Provincial Governments to borrow to a limited extent on the security of the revenues assigned to them. To suggest as did the Government of India, that the Provincial Governments would abuse these powers to the extent of causing discontent or jeopardizing the stability of their financial system, was to believe that such legally recognized polities as the Provincial Governments were run by incompetent administrators unmindful of their obligations. The second demand could have been granted with greater ease. It is to be noted that the Civil Service of the country which deals with revenue and general administration has been divided into

(i) The “Indian Civil service” recruited in England by competitive examination, at which natives of India, like other subjects of His Majesty, can compete; and

(ii) The "Provincial" and "Subordinate" Civil Services, recruited in India, and, as a rule, only open to persons who are natives of the country or domiciled therein.

Each Province has had its own separate "Provincial" and "Subordinate" Services, but while it has a free hand in recruiting for the latter, appointments to the former have been regulated by rules laid down by the Government of India. That being the case it would have been only logical that the Government which had the power of recruiting for an appointment should also have the power of regulating the salary. There can be no reason why the salaries of posts of similar grades should be equal in all Provinces; nor can they be equal having regard to the differences in the economic conditions of the Provinces. A Local Government knows better the economic value of a local man, and should therefore have been trusted with powers up to a limit covered by the Provincial and Subordinate Services. The suggestion of the Government of India that the grant of such powers would have resulted in heavy additions to the recurring expenditure of a Province must be said to be too ungracious to be taken seriously.

The acceptance of the third recommendation could not have in any conceivable way affected the responsibility of the Government of India. The only objection which the Government of India urged was that such a separation would have been unwise. To have published accounts or estimates of the Imperial Government which excluded the accounts of the Provincial Governments, when the items excluded covered such a large magnitude, would have misled the public and rendered a wholly incomplete idea of the financial position of the Government of India.[1] Now it must be granted that if such a separation of accounts could have avoided the scrutiny and the consequent restraint on budget-making by the Provinces, not to have done so was to have put the supposed convenience of the student of Accounts above the administrative convenience of the Provincial Governments. Besides, it is to be pointed out that the sugestion was not a novel one. It was only a revival of the old practice which obtained between 1871 and 1877. During that period of financial decentralization Provincial figures did not apear in the Imperial

[1] *R.C.D.,* Mit. of Evid., Vol. X, Q. 44866, 45179-180.

Budget. The Provincial Budget as framed by the Accountant General was passed by the Provincial Government and no more reference was required to the Government of India except to inform it that the estimate was a probable one and that it was within the limits of the revenues assigned to the Province. It is therefore obvious that there could not have been any constitutional objection to the granting of the demand for a separation of accounts.

The fourth recommendation was of the same class as the third, in that it too could not be said to have involved any infringement of the constitutional responsibilities of the Government of India. The abolition of the divided heads of revenue would have clearly eliminated the interference of the Government of India in the preparation of the Budget Estimates by the Provinces. Similarly the abolition of the divided heads of expenditure would have given the Provinces greater[1] freedom in the matter of spending the revenues assigned to them. Under that system a Provincial Government could not spend more on a particular service if it was a divided head unless the Government of India consented to increase its figure for expenditure under that service. If the Government of India reduced its figure the Provincial Government was perforce obliged to reduce its own. The substitution of a system of separation of sources and contributions from the yield for the system of divided heads would have clearly resulted in a greater freedom to the Provincial Governments, without any evil consequence to the Government of India. The objections which the Government of India was able to oppose to this demand was far from convincing. It was urged[2] that the Provincial Governments under complete separation may cease to take such interest as it took in respect of revenues which were divided. But it is evidently a mistaken view that a Provincial Government could not have been trusted to administer a tax efficiently unless it had a financial interest in the result. This view supposed that the people engaged in the collection of revenue really knew whether it went to the Imperial or the Provincial credit. As a matter of fact the ultimate credit could in no way have affected the collection of the revenue. And even if that view were true the

[1] *R.C.D.,* Mit of Evid., Vol. VIII, Q. 35225-28.

[2] *Ibid.,* Vol. IV. Q. 15100, 16791.

difficulty could easily have been met by each government having its own staff to collect its own revenues. The employing by one Government to execute its functions the agencies of another, as has been the case in India, is obviously a complicated and awkward system. If separation of agencies had resulted from the separation of sources it would have been a reform all to the good. Besides it was overlooked that the fact that the divided heads gave a personal interest to the Provincial Governments was indeed a point against the system rather than in favour of it. A system which created a vested interest in a revenue apart from the interest of the public was a bad system, for such an interest was sure to lead to harshness and rigidity in collection.[1] As an instance of this may be cited the notorious unwillingness of Provincial Governments in the matters of remitting taxation.[2] If humanizing the Provincial Governments was a desirable end, then the abolition of divided heads was a good means. The other objection which the Government of India was able to oppose was that such a change would have given the share of the Government of India from the revenues raised in the provinces the character of a tribute, and the Government of India would have appeared to be the pensioner of the Provincial Governments, depending upon them rather than controlling them. This objection must be ruled out as being sentimental.

The fifth and the last suggesion for the enlargement of the scope of Provincial Finance was least obnoxious to the responsibility of the Government of India. There is no reason why there should have been a single-treasury system for both the Governments, Provincial and Central. It is true that a common treasury permits a high state of economy in the cash balances of the country, which it is the duty of every Government to effect, just as any business firm looks upon it as its duty to economize its till money or floating cash. But if a common treasury hindered the use of the balances the gain in freedom would have more than compensated the loss involved by the increase in the cash balances that would have followed the institution of separate treasuries and separate ways and means. But the demand of the Provincial Governments did not ask for a complete separation of Provincial balances from the balances of the Central Govern-

[1] Cf. in this connection *The Fee System,* by Prof. Urdhal.

2 *R.C.D.,* Mit of Evid., Vol. X, Q. 44866.

ment involving separate treasury system and separate ways and means, probably because they anticipated that as such a proposal meant separate possession of provincial revenues the Government of India would raise a constitutional objection to such a demand. All they asked for was a power to spend part of their balances up to a defined amount without reference to the Government of India. The suggestion was accepted[1] as "reasonable," for its consequences, provided it was not a big amount, would have been not a deprivation of the Government of India's power of control over nor a disturbance in the ways and means, but only a slight increase in the cash balances of the country.

Thus it is clear that the scope of Provincial Finance was unduly restricted by a too narrow and too legalistic an interpretation of the constitutional obligations of the Government of India. From the above analysis of the suggestions made by the Provincial Governments it is clear that without making any breach in the constitutional position of the Government of India it would have been possible, with a more charitable view of their sense of responsibility, to effect the changes they desired. Such concessions would have made Provincial Finance as self-sufficient and as autonomous as it was capable of being made. The system would no doubt have rested on pure convention: none the less its benefits would have been as real as though it was based on law.

But the time had arrived when the financial arrangements could no longer be looked upon as a matter which concerned the Central and Provincial Governments. There arose a third party whose counsels were rejected in 1870 but which now insisted on having a voice in the disposition of the financial resources of the country. It was the Indian taxpayer, and his clamour had grown so strong that it compelled the powers that be to alter the system so as to permit him to take the part he claimed to play.

The changes that followed upon this event will form the subject-matter of Part IV.

●●

[1] *R.C.D.,* Mit of Evid., Vol. X, Q. 44900.

PART IV

PROVINCIAL FINANCE UNDER THE GOVERNMENT OF INDIA ACT OF 1919

CHAPTER X

THE NECESSITY FOR A CHANGE

As two types of governmental systems, the Presidential and Parliamentary are often contrasted[1] to the advantage of the latter. For the Parliamentary type of government it has been claimed[2] that no other arrangement seems able quite so effectively to place the centre of authority under the control of those who are supposed to represent the popular will : that it means government by consent: that it ensures the exercise of the functions of government by a body of persons who are amenable to and whose views are in accord with those of the majority of the Legislature : that it is the only form of government which provides for a powerful Executive so very necessary for a stable government without rendering it so irresponsible as to endanger the essentials of a good government: that it throws upon the holders of high office the onus of vindicating their acts or, failing, suffer dismissal: it renders the Legislature supreme both in legislation and administration so that it forms a government not only to make life possible but also to make life good. No other form of government, it is urged, can so effectively prevent order degenerating into tyranny or progress blocked in the name of peace. So eminently has Parliamentary Government demonstrated its supreme virtue in securing orderly progress that, though originally developed as an accident in the evolution of the British Constitution, it has been most eagerly adopted as the most fundamental institution by many countries whose political convulsions have required them to prepare anew or alter the existing framework of their governmental systems.

If the fact of the Executive being a part of the Legislature be a sufficient indication of the Parliamentary type of government, then the system of government in India since 1853 may be said to be analogous to the Parliamentary system. Indeed it would

[1] Cf. James Bryce, *The American Commonwealth,* 1910, Vol. I, Chap. XX.

[2] Cf. Sir Sidney Low, *The Goveranance of England,* 1914, Ch. III, *passim.*

hardly be possible to deny this characteristic to the Indian constitution, for the provision of the constitutional law has since then been that the additional (i.e. the Legislative) members *and* the ordinary (i.e. the Executive) members shall *together* form the Legislature for the making of the laws and regulation for the peace, order and good government of British India.[1] But judged in the light of its *de facto* consequences the Indian system falls lamentably below the *de jure* connotation of the class of governmental systems to which it belonged. If in other countries the record of Parliamentary government is one of submission of the Executive to the Legislature, in India it had been one of the Executive thwarting, often of flouting, the legislature. In vain may one search the proceedings of the Legislature to find the Executive ever paying deference to the wishes of the people.[2] Reforms have been incessantly, asked for by the legislature only to be denied with equal tenacity by the Executive.

The reason why the Indian parliamentary system was but an empty form is to be found in the fact that it was a Parliamentary system without a Parliamentary Executive. In other words, the Executive under the system was not responsible to the legislature and was not removable by it. The Indian Legislature could neither make nor unmake the Indian Executive. The Indian Executive made peace or war as it liked without being afraid of dismissal by the Legislature. It taxed as it pleased and spent as it liked, without the slightest compunction as to the wishes of the Legislature, it undertook acts or refused to undertake them according to its own sweet will, but had no fear of a vote of censure from the legislature. The nearest approach to the Indian

[1] Cf. the important note by that eminent lawyer Sir Bhashyam Iyengar on the Reform proposals of Lord Minto in 1908.

[2] The following table from N. C. Kelkar's *The Case for Indian Home Rule,* p. 81, is illustrative of the fact:—

Legislative Council		No. of Resolutions moved	No. of Resolutions withdrawn	No. of Resolutions rejected	No. of Resolutions accepted
Supreme	…	3	2	1	0
Madras	…	32	26	6	0
Bengal	…	38	26	12	0
U. P.	…	22	10	12	0
Bihar and Orissa	…	5	5	0	0
C.P.	…	4	2	2	0

system of parliamentary Government is to be found in the position of the Irish Parliament which existed from 1782 to 1800. The peculiarity of the case lay mainly in the fact that while this Irish Parliament, commonly known as Grattan's Parliament, was during the period it lasted admittedly a sovereign Legislature, the Irish Executive of the time was as regards the Irish Parliament in no sense a Parliamentary Executive. The Irish Executive, instead of being appointed and dismissed by the Irish Legislature, was in reality appointed and dismissed by the Crown on the advice of the English Ministry. In the same manner the Indian Executive was appointed and dismissed by the Crown on the advice of the Secretary of State for India who is a member of the English Ministry and was in no way responsible to the Indian Legislature.

It is true that the Executive in India was ultimately responsible to the Secretary of State for India and through him to the British Parliament. But it must not be forgotten, said Mr. Fisher,[1] that

> "the affairs of India are in the hands of the Government of India.... Proposals may come from the Indian Government to London and be vetoed by the Imperial Government. The large lines of Indian policy may be shaped by a Secretary of State in the India Office, and a powerful Secretary of State may make his influence felt strongly on the direction of Indian affairs if he encounters no serious opposition from the Government of India. But in reality the last word lies with the Indian official opinion (i.e. the Executive in India), that a measure would not be forced upon India against the united opposition of the Indian bureaucracy."

As a matter of fact neither was the Secretary, though all-powerful in Indian affairs, inclined to restrain the Executive in India from doing what the people regarded as evil nor to constrain it to do what he thought to be for the good of the people.[2] Hardly can it be said that the British Parliament, wherein every member

[1] Fisher, H. A. L., on Imperial Administration in his *The Empire and the Future,* 1916, p. 58.

[2] The only two cases in which the Secretary of State is known to have run counter to the wishes of the Executive in India were those concerning the Punjab Drainage and Canal Act and the Indian Tariff Act of 1875. The latter was obviously detrimental to the interests of India.

has been supposed to be a member for India, has made the acts of the Indian Executive a matter of anxious scrutiny.[1] On the other hand, its interference in Indian affairs has on some occasion been positively harmful to the interests of the Indian people.[2] Indeed, there can be no doubt that the interest of Parliament in Indian affairs since the assumption of the Government of the country by the Crown instead of increasing has considerably diminished as compared with the interest it took when the affairs of the country were in charge of the Company.[3] Nay, the influence of the British Parliament over Indian affairs, it may be said, has undergone a decided change for the worse,[4] inasmuch as all its influence is exerted to strengthen the Executive in India against popular clamour rather than restraining it from flying in the face of public opinion.

It is therefore evident that the control of the Secretary of State and of Parliament over the Executive in India was only a nominal control, and the Indian Executive was in reality an uncontrolled body of bureaucrats in the exclusive charge of Indian affairs. How was this trust discharged by this irresponsible Executive ?

The answer to this question may be summed up in the statement that the Indian Executive has sacrificed progress to order. Whether we examine its actions in the field of legislation or finance, the truth of this statement becomes painfully evident.

[1] The salary of the Secretary of State for India being paid out of the revenues of India, Parliament, had no occasion, as it had in the case of the Colonial Secretary, to annually review his actions in the full activity of the parliamentary Session. At the end, generally after the Appropriation Bill had been read a second time, the Indian Budget used to be submitted to Parliament which, after a somewhat desultory discussion, used to pass a Resolution proclaiming in solemn terms that the Indian Accounts show certain totals of income and expenditure ! Many attempts were made to improve the control of Parliament on Indian affairs. But Parliament never cared to increase its control. In 1873 Mr. R. N. Fowler moved "that in the opinion of this House it is desirable that the Statement of the financial affairs of India should be made at a period of the Sessions when it can be fully discussed." Again in 1883 the same motion was brought forward by Mr. Fowler. Both of these attempts to furnish the House with a better opportunity to review Indian affairs fell to the ground. In 1899 the same Resolution was moved by Mr. Cladwell, M.P., with the addition that the Salary of the Secretary of State for India be placed on the British Estimates. It was opposed by Mr. Fowler, who was then the Secretary of State for India, and was in consequence lost. By the provision of the Government of India Act of 1919 the House has a better opportunity to criticize Indian affairs owing to the salary of the Secretary of State having been placed on the British Estimates.

[2] Cf. the Resolutions of the House of Commons in 1877 and 1879 condemning the Indian Tariff policy in the interest of Lancashire.

[3] In support of this may be cited the fact that Parliament never granted a lease of power without making harassing inquiries into the affairs of the East India Company.

[4] Compare the Parliament which subjected the Indian Executive to the Judicature with the Parliament that has freed that Executive from Judicial and Legislative control. Compare the Parliament which laid stringent regulations on the Europeans in India with the Parliament which not only allowed them free ingress but kept them above the control of the Magistracy. Compare the Parliament which impeached Hastings with the Parliament which supported General Dyer.

There are very few countries in the world where there may be said to prevail so many social evils as has been the case in India. Law is a means by which society from time to time repairs its ills in order to effect its conservation. But with very few exceptions[1] the rule of *personal* law of a most pernicious character has been allowed to govern the social relations of the citizens, notwithstanding the fact that enlightened public opinion has long since raised its voice of protest against its perpetuation.[2] So religious has been the regard of the Executive for the preservation of the personal law, notwithstanding the fact that it has disabled millions of its subjects from enjoying the most elementary rights of citizenship, that it has been careful not to allow in cases of conflict the rational provisions of the civil law to override or chasten the irrational rulings of that archaic code.[3] Judged by the modern standard of legislation the Executive must be pronounced to be extremely conservative. In the matter of securing economic rights its response was of a very halting character, and the legislation it has been persuaded to undertake for giving security or fixity of tenure to the agricultural[4] or ease and comfort to the industrial[5] population sank in comparison to what it refused to undertake for liberating the rest from a species of industrial slavery notwithstanding incessant demands for its abolition.[6]

Its financial system was similarly characterized by the desire to preserve peace and order by taxing the masses and exempting the classes. It has been urged that the revenue system be so altered as to give relief to the poorer classes. Indirect taxes are justified as a method of making the poorer classes pay their

[1] Bengal Regulation of 1829 prohibiting *Sati;* Act V of 1843 (prohibiting slavery); XXI of 1850 (re enacting Sec. of Reg. VII of 1832) prohibiting forfeiture of rights or property as a result of loss of caste or religion ; XV of 1856 authorizing the remarriage of Hindu widows ; XXI of 1866 enabling native Converts to Christianity to obtain divorce ; XXVII of 1871 restricting unnatural practices ; III of 1872 providing a form of marriage for all persons who are neither Christians, Jews, Hindus, Mahomedans, Jains, nor Sikhs.

[2] It was first accepted by Warren Hastings in 1772 and was embodied in the East India Company's Act of 1780 (21 Geo. III, c. 70, ss. 17 and 18); the provisions have been incorporated in later Statutes.

[3] Cf. the provisions in favour of the personal law in the Indian Succession Act X of 1865; the Transfer of Property Act IV of 1882, and the Indian Trust Act II of 1882.

[4] Cf. The Tenancy Acts of 1859, 1868, 1881 and 1885 in Bengal; Oudh Rent Act of 1868 in U.P.; the Deccan Agriculturists Relief Act of 1879 in Bombay, and the Central Provinces Tenancy Act of 1883.

[5] The Factory Acts did not begin in India till 1881. The Act of 1881 was amended in 1891 and replaced by another in 1911 which lays down the conditions governing factory labour in India.

[6] Students of Indian economic problems will perceive that the reference is to the scandalous system of indentured labour.

share of the burden of the State without their being sensible of the fact. But there is a limiting principle which forbids the imposition of certain kinds of indirect taxes. It may be said to be agreed by students of public finance that indirect taxes be such that the poor on whom they impinge rather heavily relatively speaking, must be able to adjust the burden of such taxes to their means. When such indirect taxes fall on luxuries it is possible for them to apportion for themselves the burden they need must bear by regulating their purchases. But in those cases where they fall on necessaries of life this elasticity is not possible. The pernicious character of the salt tax in India was urged as a sufficient ground for its elimination from the revenue system of India. But not only did the Executive refuse to accept the demand, it actually increased the salt tax whenever a deficit has occurred instead of tapping some other source of revenue, which it could have done with equal ease and greater justice. In 1886, to cite one example, it was admitted[1] that

> " There can, after all is said and done, be no manner of doubt, but that one great fact remains established, one great blot not only unremoved but aggravated by the course of events in recent years ..... It is that ..... the classes in (India) which derive the greatest security and benefit from the British Government are those who contribute the least towards it."

But in the Budget of 1887-8 the Executive eschewed its own conviction and inceased the salt duty to make up for the deficit caused not by any extraordinary measure of internal improvement but by an enormous act of external aggression, namely the conquest of Burma, as though the income tax of 1886 which left untouched the incomes of the Bengal zamindars, the Assam Tea planters and the Talukdars of Oudh, in making the richer classes pay, made them pay, at the very moderate rates it levied, all they could be made to pay.

But the salt tax is not the only instance of inequity under which the masses paid for the classes. The land revenue as it has been levied in India may be cited as another example of inequity in the Indian Tax System. The sources of inequity are various. There is first of all the glaring fact that in some cases the amount of the tax

[1] Cf. the speech by Sir A. Colvin on the License Tax Amendment Bill in the Supreme Legislative Council on January 4, 1886.

is permanently fixed, while in other cases the amount of the tax payable in respect of land revenue is periodically revised. Now there is no justifying circumstance why some citizens should be exempted from contributing their quota to the growing needs of the State when the same is rigorously exacted from their fellows. This is, however, only one point of injustice to those whose taxable capacity in respect of land revenue is subject to periodical revisions. There is another which consists in the adoption of a wrong measure of capacity to pay. The cardinal feature of this revisable part of the land tax in India is to be found in the basis of the tax which, as is well known to every student of Indian Finance, is a certain unit of land. Now nobody has ever suspected the pernicious effect of the system which bases the tax on a unit of land held ; but surely there can hardly be a system more mistaken in thought or more mischievous in practice. It ignores the commonplace of economists which asserts that taxes are paid not by things but by persons,[1] and if it is persons who ultimately pay the taxes then it is manifest that they must be required to contribute not according to the land they hold but in proportion to the total income derived. On the contrary the system, in undertaking to tax per unit of land, taxes the poor peasant with only one acre to cultivate and the landlord owing hundreds of acres at a *uniform* rate without realizing that as the total incomes of the two must be vastly different this uniformity of taxation must produce a glaring inequity of treatment as between the rich and the poor.

If the revenue thus raised by sacrificing equity to the dictates of order had been spent on services promoting progress there would have been some compensation. But such was not the case.

All the revenue that was collected was spent on Services such as Police, Military and Administration which are calculated to maintain order. Such services as Education, State aid to industries, hardly found any place in the scheme of public expenditure as managed by this irresponsible Executive. But it may be asked as to why the Executive, sovereign as it was, should have stood for order and against progress ? The answer

[1] Cf. the criticism by Prof. Cannan on the Terms of Reference to the Royal Commission on Local Taxation in the Memoranda chiefly relating to the classification and incidence of Imperial and Local Taxation, C. 9528 of 1899, p. 160.

PERCENTAGE OF EXPENDITURE

(Excluding expenditure on commercial services, i.e., Post Office and Telegraph Dept., Railways and Irrigation). In thousands of rupees.

Periods	District Adminis-tration	Forest	Other Heads, including Opium	Debt Sources	Civil Depts.	Civil Changes	Civil Works	Army (Includeing Military Works and Special Defence Works)	Famine Relief and Insurance	Total
1877-78 to 1881-82	5.2	.8	5.6	8.9	18.7	6.8	5.8	39.2	2.6	93.6
1882-83 to 1886-87	6.0	1.2	6.6	8.2	21.4	7.5	7.6	35.6	2.3	96.4
1887-88 to 1891-92	6.0	1.3	5.4	7.6	22.1	7.5	7.3	37.7	2.8	95.7
1892-93 to 1896-97	6.1	1.3	4.9	6.4	22.5	8.4	6.9	38.5	1.6	96.6
1897-98 to 1901-02	5.8	1.4	5.5	4.3	22.6	7.8	6.8	35.2	4.8	94.2
1902-03 to 1906-07	5.9	1.6	8.2	3.1	23.2	7.3	9	37.1	1.8	97.2
1907-08 to 1911-12	6.3	1.8	7.1	3.5	25.7	7.7	8.5	35.6	2.1	98.3
1912-13 to 1916-17	6.0	1.9	6.2	2.1	28.2	7.3	9.3	35.1	1.5	97.6

From the statistics of British India, Vol. II, Financial Statistics, 1920, p. 7.

is that an irresponsible government, however sovereign, is incapable of progress, for in the exercise of its sovereign powers it is hampered by two very serious limitations.[1] There is first of all the internal limitation which arises from the character, motives and interests of those who are in power. If the Sultan does not abolish Mahomedanism, Pope ban Catholicism, the Brahmin condemn caste, or the British Parliament declare the preservation of blue-eyed babies illegal, it is not because they *cannot* do things, but it is because they *will* not do these things. In the same way if the Executive in India did not do certain things most conducive to progress it was because by reason of its being impersonal[2] and also by reason of its character, motives and interests it could not sympathize with the living forces operating in the Indian Society, was not charged with its wants, its pains, its cravings and its desires, was inimical to its aspirations, did not advance Education, disfavoured Swadeshi or snapped at anything that smacked of nationalism, it was because all these things went against its grain. But an irresponsible government is powerless to do even such things as it may like to do. For its authority is limited by the possibility of external resistance. There are things which it would do but dare not do for the fear of provoking thereby resistance to its authority. Caesar dare not subvert the worship of the Roman people, a modern parliament dare not tax the Colonies, however much they would. For the same reason the Government of India dared not abolish the caste system, prescribe monogamy, alter the laws of succession, legalize intermarriage or venture to tax the tea planters. Progress involves interference with the existing code of social life and interference is likely to cause resistance. None the less

[1] For an illuminating discussion of this, cf. A. V. Dicey, *Law of the Constitution,* 1915, pp. 74-82.

[2] Impersonal because the higher and controlling grades of public services are devoid of Indian element. Although the eligibility of the natives of India for employment in public services was proclaimed as far back as 1833, the regulations made by the Secretary of State for admission to the Public Services in India has had the tendency to exclude them from the employment of the right granted to them by statute. Under the regulations made by the Secretary of State for War, candidates for Commission in the Army were to be of pure European descent and a similar regulation was adopted by the Admiralty for cadetship in the Navy, thereby excluding Indians. As to the Civil Service the Statute (Government of India Act, 1858, s. 32) laid down that all "natural-born subjects" of the Crown be admitted for examination, thereby including the natives of India. But the ruling of the Secretary of State that that examination should be held only in London had indirectly debarred many natives of the country from benefiting themselves under the statute. Regulations for admission to other public services varied. For the Indian Medical Service, candidates were to be natural-born subjects of European or East Indian descent; for the Indian Police Service they were to be British subjects of European descent; for the Forest Service they were to be natural-born British subjects ; for Public Works Department one-tenth might be natives of India who are British subjects.—Cf. in this connection Halsbury, *Laws of England,* Vol. X, pp. 588-9.

a government which is of the people and is not detached from them can venture on the path of progress, because it is in a position to know where obedience will end and resistance will begin. But the Indian Executive not being of the people could not feel the pulse of the people. The gist of the matter is that the irresponsible Executive which had been in power in India was paralysed between these two limitations on its authority and much of what went to make life good was held up. Part of the programme it would not undertake and the other part it could not undertake. As a result of this, so far as the moral and social life of the people was concerned, the change of government by the Moghuls to a government by the British was only a change of rulers rather than a change of system. Owing to the adoption of the principle of non-interference partly by preference and partly by necessity by the British

> "the natives of India found themselves under a government distinguished in no vital respect from those under which they had toiled and worshipped, lived and died through all their weary and forgotten history. From a political standpoint, the change was but the replacement of one despotism by another. It accepted the arrangements as it found them[1] and preserved them faithfully in the manner of the Chinese tailor who, when given an old coat as a pattern, produced with pride an exact replica, rents, patches and all."[2]

That there was some advancement in material progress is not to be denied. But no people in the world can long remain contented with the benefits of peace and order, for they are not dumb brutes. It is foolish to suppose that a people will indefinitely favour a bureaucracy because it has improved their roads, constructed canals on more scientific principles, effected their transportation by rail, carried their letters by penny post, flashed their messages by lightning, improved their currency, regulated their weights and measures, corrected their notions of geography, astronomy and medicine and stopped their internal quarrels. Any people, however patient, will sooner or later demand a government that will be more than a mere engine of efficiency. Under the influence of Western ideas of representative govern-

[1] The poll tax has been continued in Burma simply because it was found to exist there on the day of conquest.

[2] Benard Houghton, *Bureaucratic Government.*

ment the Indian people had for some time been demanding a change in the form of the government. A Parliamentary form of government with a Parliamentary Executive was the goal they had laid before themselves.

The popular agitation for achieving this end assumed such proportions that, in the course of time, there was presented a serious issue for the consideration of the Executive in India. How was the government of the country to be carried on ? By force or by consent, Power seldom commits suicide of its own accord. Rather, when it fails to secure the willing compliance of the people, it resorts to force. That was the resource adopted by the Executive in India. Not satisfied with the aid of the power with which the Executive was endowed by the provisions of the Criminal and Penal Codes to anticipate offences by preventive acts, it besmeared the Indian Statute Book with a set of repressive laws hardly paralleled in any other part of the world. The Criminal Law Amendment Act XIV of 1908 empowered a magistrate with special sanction of the Government to hold an *ex-parte* inquiry without the presence of the accused or of his legal representative and commit him for trial to be conducted without a jury. Under another provision of the same Act the Executive could declare unlawful any association which in its view interfered with the maintenance of law and order. The State Prisoners Regulations[1] and Acts[2] authorizing the Executive to place under restraint any person whom it suspected but against whom it had no proof, constituted by themselves a perpetual suspension of the Habeas Corpus Act :[3] while under another Act[4] the Executive was empowered to proclaim "a State of Siege" or martial law in any area and suspend therein the jurisdiction of the civil courts in favour of the military courts. The Indian Press Act of 1910 put a complete muzzle on the Press. So wide were its provisions that in the opinion of a learned judge[5] of one of the Indian High Courts it was "difficult to see to what length its operation might not be plausibly extended by an ingenious mind"

[1] Bengal Regulation III of 1818 ; Bombay Regulation XXV of 1827 ; Madras Regulation II of 1819.

[2] Act XXIV of 1850 and Act III of 1858.

[3] N. Ghose, *Comparative Administrative Law,* 1918, p. 480.

[4] Act IX of 1857.

[5] Sir Lawrence Jenkins, C. J., *in re* Mahomedali, I.L.R. 40, Cal. 466 (1913), quoted by N. Ghose, *op. cit.,* p. 567.

and "that they would certainly apply to writings that might even command approval" and "much that is regarded as standard literature might undoubtedly be caught." The right of public meeting was suppressed in the same manner and with the same sterness as was the right to personal freedom and the right to freedom of discussion ; for, over and above the restrictive provisions contained in the ordinary law of the land,[1] the executive armed itself with discretionary powers under a special enactment to prohibit any public meeting on the excuse of what it regarded as the interest of the public.

The rigour of this regime of *lettre de cachet* and the *Bastille* was quite untempered by any fear of responsibility on the part of the Executive for any excesses committed in putting these repressive laws into operation. For it is to be noted that the Executive had, coupled with the large grants of these discretionary powers to suppress the liberties of the people in order to preserve law and order, the gift of an equally generous measure of immunity to its agents in carrying out those powers.[2] The Police Acts and the Press Act *all* contained provisions which barred all action in a civil court against these agents for damages to be done in pursuance of these Acts. Officers, and soldiers taking part in the suppression of riots were not criminally responsible for acts done in good faith and were not to be prosecuted for other acts without the sanction of the government.[3] In like manner superior Executive officers could not be prosecuted for crimes committed in discharge of public functions except with the permission of the government and then only in the manner prescribed by government.[4] There is no wonder then if such discretionary powers, exercised extra-judicially, substituted a reign of terror in place of a regime of peace.

But it was soon found out that force was not a sure means of carrying on the government of a country. The verdict of history was well summed up by Burke[5] when he said :

> "The use of force alone is but temporary. It may subdue for a moment, but it does not remove the necessity of subduing again : a nation is not governed which is perpetually to be conquered. (The) next objection to force is its uncertainty. Terror is not always the effect of force, and an armament is not

[1] Sections 108 and 144 of the Criminal Procedure Code and Sections 120A and B, 124A and 153A of the Indian Penal Code.

[2] N. Ghose, *op. cit.,* p. 601.

[3] Code of Criminal Procedure Act V of 1898, Ch. IX, Sections 128, 130 and 132.

[4] *Ibid.,* sect. 197.

[5] Speech on conciliation with America.

a victory. If you do not succeed, you are without resource ; for conciliation failing, force remains, but force failing, no further hope of reconciliation is left. Power and authority are sometimes bought by kindness, but they can never be begged as alms by ah impoverished and defeated violence. A further objection to force is, that you impair the object by your very endeavours to preserve it. The thing you fought for (to wit the loyalty of the people) is not the thing which you recover, but depreciated, sunk, wasted and consumed in the contest ......"

Government by consent was indeed long ago accepted by the Indian Executive as a principle of political wisdom, and the changes introduced from time to time in the constitution of the Indian Legislature were avowedly for the purpose of making it reflect the popular will. The result for a time was an astonishing degree of accord between the Indian Executive and the Indian Legislature ; so much so that the regime of *lettre de cachet* and the *Bastille* had the sanction of the majority of the *Indian legislature.* But all this government by consent or conciliation was a camouflage. On the other hand, an analysis of the changes introduced from time to time into the constitution of the Indian Legislature clearly shows that the motive behind these changes was to make it an impotent body or a willing tool in the hands of the Executive. A Legislature as distinct from the Executive was first' inaugurated in 1853.[2] But in 1861[3] the constitution of the Legislature then established was altered. The ground urged was that that Legislature was not a body representative of the Indian people.[4] Its members were drawn from the official class representing the several Provincial Governments. In order to make the Legislature representative of the people, the Act of 1861 directed that it should be composed of *nominated* members chosen by the Governor-General from among the public, of course on the advice of the Executive. Again, by the Act of 1892 the Governor-General was directed to nominate such persons to the Legislature as were selected by public bodies in the country.

[1] Up to 1833 the Executive was also the Legislature. In 1833 a law member was added to the Executive Council, whose duties were confined to merely giving assistance to the Executive Council in the matter of making laws. By the Act of 1853 he was merged into the Executive Council.

[2] 16 and 17 Victoria, c. 95.

[3] 24 and 25 Victoria, c. 67.

[4] By the Act of 1853 the Supreme Legislature was composed of nominated members comprising two Judges of the High Court of Bengal and four nominated officials representative of the Bengal, Madras, Bombay and N.W.P. governments in addition to the members of the Executive Council of the Government of India.

These changes in the constitution of the Legislature appear to be aimed at liberalizing it. But was this tendency towards making the Legislature representative accompanied with a tendency to make it more powerful as regards the Executive ? Quite the reverse. As the legislature gained in its representative character it lost in its controlling power. The powers exercised by the Legislature under the Act of 1853 were far vaster than anything possessed by the Legislature under the Act of 1861. Under the former the Indian Legislature modelled itself on the procedure of the House of Commons in England, and not only dealt with matters of legislation, pure and simple, but also with matters of administration. In the words of Sir C. Ilbert, it showed an inconvenient degree of independence by asking questions as to and discussing the propriety of the measures of the Executive Government—deeming itself competent to inquire into abuses and grievances, calling for reports and returns from local administrations, debating long on questions of public interest and introducing motions and resolutions independent of the Executive Government. In a despatch of Lord Canning at the time, he pointed out that the Legislature had become invested with forms and modes of procedure closely imitating those of the House of Commons, that there were 136 standing orders to regulate the procedure of a dozen gentlemen assembled in council, that in short, in the words of Sir Lawrence Peel, they had assumed jurisdiction in the nature of that of a grand inquest of the nation. This was deemed to be a very grave defect (!!) in the Legislature as constituted by the Act of 1853. Its reform was therefore looked upon as very necessary for maintaining the supremacy of the Executive, and its non-popular character was made the ostensible excuse for its reconstruction. Under the pseudo-representative system introduced in 1861 the Legislature was a meek body entirely in the hands of the Executive. Being composed of *nominated* members, division in the Legislature was directly influenced by that fact. In every legislative body a man must sit, unless he has a hereditary right, by what in modern parlance is called a mandate. That mandate usually proceeds from the authority to whom he owes his seat. The nominated members, official as well as non-official, owed their elevation to the legislature to the pleasure of the Executive, and as such were bound to support the Executive on any measure on which a division was taken. The Executive had always at its command the official block of nominated members, who gave implicit obedience to its mandates either because of its convictions or by reason of its being a part of the same. The nominated non-officials, who may be said to be opposed by conviction to the Executive, were not men of independent character and were largely concerned to make themselves agreeable to the Executive rather than make themselves reckoned with. But had they been men of independent character they could not have made themselves masters of the Executive, for by the provisions of the Constitutional law and the rules of procedure made under it, the Legislature was rendered entirely powerless to compel the Executive to do anything against its wishes. From 1853 to 1861 the Legislature dealt with both legislative and administrative questions. From 1861 the legislature met only for legislative purposes. As a consequence of this limitation the Legislature was debarred from asking a question, moving a resolution or dividing on the Budget. During the first thirty years of its existence the legislature did not even discuss the annual budget on more than sixteen occasions, and that too because some new tax legislation had been called for, and which the Executive could always carry through with the help of the nominated official block as it did every other kind of legislation it deemed necessary. The right of discussing the annual financial statement and the right of asking questions in regard to matters were first conceded to the legislature by the Rules of Procedure framed under the Indian Councils Act of 1892. But it may be doubted whether these concessions of powers to the Legislature amount to a restoration of the position which it occupied and dominance it exercised under the Act of 1853.

Even the reforms of Lord Morley fell short in the matter of according a real measure of independence and power to the Legislature over the Executive. In the reforms which he introduced in 1909 nomination, directly or after selection, was in principle replaced by election as a basis for the constitution of the legislature. At the same time the procedure of the legislature was liberalized so as to give power to the members to put supplementary questions along with interpellations, to move resolutions on the Financial Statement and on matters of general public interest. But a little analysis is enough to show that even this attempt was of a piece with the old endeavour of liberalizing the Legislature without impairing the supremacy of the Executive.[1] This supremacy of the Executive was maintained (1) by means of a permanent majority of officials of the government nominated to the legislature, and (2) by controlling the rules of procedure. Although election[2] was admitted by the Act of 1892 as a basis of the composition of the Legislature, the elected members were in a minority, so that they could not give effect to the wishes of the people whom they represented. They were entitled to move resolutions if permitted by the Executive[3] but the Executive was not bound to carry them out. They served only as recommendations, and were not binding upon the Executive. This direct thwarting produced irritation between the Executive and the elected members of the Legislature. In a certain sense the reforms of 1909 were a bad piece of engineering. Before 1909 whatever conflict there was was manifested outside the Legislature. For by the rules of election and procedure the Legislature was entirely muzzled : it could do no mischief. By the reforms of 1909, however, an attempt was made to make the Legislature independent and at the same time to muzzle it. This attempt, ingenious as it was, only served to bring to the surface the deep-seated conflict between the Executive and the forces agitating the minds of the people. Election procedure or business procedure governing a legislature is, in the words of Prof. Redlich, as it were a political pressure gauge, indicating the tension in the parliamentary machine and thence in the whole organism of the State.[4] It is possible that this pressure gauge in the first instance may either be badly constructed or may become

[1] It was Lord Morley, of world-wide fame as a champion of Liberalism by supporting the cause of Irish Home Rule, who said in introducing the political reforms in India : "If I knew that my days, either official or corporeal, were twenty times longer than they are likely to be, I should be sorry to set out for the goal of a Parliamentary system in India. The Parliamentary system in India is not the goal to which I for one moment aspire."

[2] It was, however, a system of selection. The only difference between the Act of 1861 and the Act of 1892 was that under the former Act the Executive Government was to nominate anyone it liked to the Legislature. Under the latter the Executive Government was to nominate "upon the advice of such sections of the community as are likely to be capable of assisting in that matter." But as the Government was not bound to appoint the person selected, the second, howsoever concealed, must really be regarded a case of nomination by the Executive as much as the first.

[3] Legally the President of the Council, i.e. the Viceroy ; but he is supposed to be invariably acting on the advice of the executive Council.

[4] Cf. J. Redlich, *Parliamentary Procedure,* Vol. III, p. 198.

worn out so as to give a false reading of the actual tension. But there can be no doubt that in the case of India the Executive, in the alterations which it introduced from time to time and particularly in 1909 in the election and business procedure of the legislature, had all along constructed it badly of purpose and had attempted to conceal thereby dangerous pressure of the steam in the political machine, so as to cause it to give a false reading of the situation. So long as the members of the legislature derived their mandates from the Executive, owing to the fact that all of them were nominated members, such an artifice worked well, with the entry of the elected members holding their mandates from the people, the weakness of the artifice became evident. The mortification of the elected members led them to obstruct and challenge the great fundamental principles recognized as the theoretical basis of procedure. Now if a party complained of inequality among members, of the rules of conducting proceedings, of freedom of speech or of the majority principle, it is a danger signal indicative of the existence of some serious defects in the life of the State. When such a conflict arises it is for a political statesman to judge whether he has to face a reform of the procedure of the representative assembly or a reform in the constitution of the State.

While inside the Legislative Assembly there were signs of hardening opposition and weariness which comes from sterile efforts, outside the Legislature the tide of feeling was rising more quickly, for, all the time the sense of national consciousness and the desire for political power were growing rapidly in the minds of educated Indians, no doubt, because the Legislature with its limited powers was found to be an insufficient safety valve. As a result of the realization of this fact those who had given their thoughts to the political reconstruction of the country agreed that a mere reform of the procedure will not do. Only a reform of the constitution will save the state from anarchy.

There was, however, a considerable diversity in the reforms suggested for effecting an alteration in the constitution of India. One scheme may here be noted in passing and that was the scheme propounded by the Indian National Congress and the Moslem League, shortly known as the Congress-League-Scheme.[1] The scheme demanded a four-fifths majority of elected

[1] This will be found in East India Constitutional Reforms, pp. Cd. 9178 of 1918, p. 98.

members in the Central Legislature. As to the Executive, it demanded that one-half of the total number of the Executive members should be Indians and that they should be elected by the elected members of the Legislature. The Legislature was to have complete financial and legislative powers. Nay, its recommendations, passed in the form of resolutions, were to be binding on the Executive. Such "was the latest, most complete and most authoritative presentation of the claims of the leading Indian political organizations" on behalf of the Indian people. But when we come to analyse the scheme it speaks poorly of the political genius of the Indian politicians. The scheme was formulated as a fulfilment of *responsible* government in British India. But in practice it was not only not a measure of responsible government, but it was deficient even to subserve the ends of good government. The scheme did not ask that the legislature should have the power to make or unmake an Executive as it pleased. If it had asked that, then the scheme would have been a scheme for responsible government. But what it asked for was to compel an Executive, which was irremovable, to conduct the administration of the country according to the orders of the Legislature. The Scheme was of a piece with that of Lord Morley in an enlarged form. He had introduced an Indian element into the Government so that Indian opinion and Indian advice might have some weight with the Executive in addition to what it exercised through the legislative organ of the Government. Those who framed the Congress-League-Scheme merely increased the Indian element in the Executive and the Legislature, and added provisions aimed at converting advice into control without realizing what was to happen if the Executive refused to be bound by the wishes of the Legislature. The essence of the project was an Executive with a divided mandate legally responsible to Parliament, and practically to an elected Legislature. Such a separation of mandates, it was obvious, would have enabled the Legislature to paralyse the Executive without having power to remove it. Being without any constitutional means to change the Legislature in cases of conflict by an appeal to the Electorate it would have been obliged to carry on the Government even where it did not respect the wishes of the Legislature. The scheme was unsound, like all previous attempts at the reform of the Indian Constitution, because in it the Executive and the legislature derived their mandates from and were responsible to different powers. It was unsound because it overlooked the possibility that two mandates may not agree, in which case there would be a conflict. That conflict is inherent in a non-parliamentary executive. Some form of a Parliamentary government with a Parliamentary executive was the only way of avoiding it.

It is from this standpoint that the announcement of August 20, 1917, forms a landmark in the annals of the development of the Indian Constitution. On that date the Secretary of State for India announced in the House of Commons that—

> "The policy of His Majesty's Government, with which the Government of India are in complete accord, is that of the increasing association of Indians in every branch of the administration and the gradual development of self-governing institutions, with a view to the progressive realization of responsible government in India as an integral part of the British Empire. They have decided that substantial steps in this direction should be taken as soon as possible ......"
>
> " I would add that progress in this policy can only be achieved by successive stages. The British Government and the Government of India, on whom the responsibility lies for the welfare and advancement of the Indian peoples, must be judges of the time and measure of each advance, and they must be guided by the co-operation received from those upon whom new opportunities of service will thus be conferred and by the extent to which it is found that confidence can be reposed in their sense of responsibility."

This momentous announcement marks the end of one epoch and the beginning of a new one. It definitely abandoned the old conception under which the Executive might, as it saw fit, consult the wishes of the legislature, which were only given an increasing share in the administration of the country and increasing opportunities for influencing and criticizing, but never for controlling, the Government. Under the new conception the aim was to endow the Legislature with the power to make or unmake the government, so that it would be not only a government of the people and for the people, but by the people. The adoption of such a change of policy in the basis of the political institutions of the country involved far-reaching changes in their relations with one another, administrative, legisltive and financial. The changes in the system of Provincial Finance introduced in consequence of the Reforms Act of 1919 were not caused by any inherent defects in the system as it stood at that date. On the other hand, the system was eminently workable. They were effected because the system as a whole was inconsistent with the great revolution which that Act had sought to effect in the governmental system of that country.

The nature of the changes, their extent and their adequacy will form the subject-matter of the two following chapters.

●●

CHAPTER XI

THE NATURE OF A CHANGE

The announcement of August 20, 1917, spoke of progressive realization of responsible government as the goal of the future British policy in India, and the Montague-Chelmsford Report on Constitutional Reforms surveyed the ways of giving effect to that announcement. One of the merits of that Report consisted in showing that the Congress-League-Scheme of political reforms did not embody the principle for the recognition of which they were agitating so long. Instead of inaugurating a responsible government in India, the scheme would have saddled the country with a non-parliamentary executive under a parliamentary system of government. Being convinced of their error the Congress-League politicians, be it said to their credit, abandoned their scheme in favour of the proposals contained in the Joint Report. But in their turn they demanded the introduction of a more or less complete responsible government in most of the political institutions at one stroke. But the framers of the new constitution pointed out that the emphasis on the word progressive in the announcement was as great if not greater than the emphasis laid on the word responsible.[1]

In consonance with this view it was decided to introduce, as a substantial step in the progress towards the realization of the goal laid down in the announcement, a responsible government of a limited character in the Provincial Governments. The Provincial Governments in India, like the Central Government, were irresponsible governments. The changes made in the constitution of Provincial Legislatures were of the same nature as the changes in the Central Legislature, in that both were calculated to enable the Executive to consult the Legislature without being amenable to its control. Only on one occasion were the frame-works of the two machines of governments, the

[1] Report of the Joint Select Committee on the Government of India Bill, p. 203 of 1919, p.s. para. 7.

Provincial and the Central, constructed on a slightly different basis, and that was in the Morley-Minto Reforms of 1909. Under those reforms the Central Legislature was dominated by *official* members who with the members of the Executive formed a standing majority in the chamber. In the Provincial Legislatures this principle of a standing majority of official members was dispensed with. The second point of departure in the constitution of the Provincial Legislatures as compared with that of the Central Legislature consisted in the Budget procedures in the two governments. In the Central legislature the Finance Member early in each calendar year presented to the Legislature his preliminary estimates accompanied by an explanatory memorandum. On a subsequent day he made such further explanations as he thought necessary. Members of the Legislature could thereupon move resolutions regarding (*a*) any proposed alteration in taxation, (*b*) *any* proposed loan, or (*c*) *any* additional grant to a Local Government. The first stage in the discussion of the Budget of the Government of India was over when once these resolutions were voted upon. The second stage commenced when the estimates were taken into consideration by groups. At this stage also it was open for members to move resolutions on any heads of revenue and expenditure, except those that were declared by rules of procedure to be not open for discussion to the legislature. After the resolutions had been moved and voted upon the Finance Member took the whole discussion into consideration and made such changes as were agreeable to him and then presented his final Budget. At this, the third stage, the Finance Member explained his reasons for the acceptance of some and the non-acceptance of other suggestions made during the course of the Budget debate. A general discussion of the Budget then followed, but no resolution was allowed to be moved upon the final Budget or a vote taken. The Budget procedure in the Provincial Legislatures was a little different. There the first stage commenced with the preparation of a rough draft of the provincial estimates, accompanied by a schedule including in it all projects involving an expenditure of over 5,000 rupees, divided into two parts, the first containing all allotted, i.e. obligatory, items of expenditure and the second containing unallotted, i.e. non-obligatory, items of expenditure. The Government of India to whom this draft Budget was submitted corrected the estimate of the revenue and determined in consultation with the Provincial government the aggregate expenditure for which the latter should provide, and if need be, altered or added to the items in the first part of the schedule. When the figures of the altered revenue and the aggregate expenditure as fixed by the Government of India were communicated to the Provincial Government it marked the close of the first stage of a Provincial Budget. The second stage commenced when this draft Budget was submitted by the Provincial Government to a committee of the Provincial Legislature. The Committee was composed of officials and non-officials in equal number, the former nominated by Government and the latter elected by their fellows. It was presided over by the member of the Executive in charge of Provincial Finance ; the proceedings of the committee were informal and private and decisions were by majority votes. The Committee concerned itself only with the second part of the Schedule containing non-obligatory items of expenditure and, provided it did not exceed the aggregate expenditure fixed by the Government of India, it was free to make variations and even to insert new items occasionally. On the conclusion of its labours the Committee reported the changes it made to its Government. With this ended the second stage in the Provincial Budget. The third stage began when the Provincial Estimates as a whole were presented to the Provincial Legislature by the member in charge of finance. The Budget was then considered in a committee of the whole House and resolutions moved on each group of estimates discussed. When all resolutions were debated and voted upon the result of the discussions was communicated to the Provincial Government. But the resolutions were not binding. The fourth stage commenced when the Provincial government introduced the final budget and explained its reasons for the acceptance of some and the non-acceptance of the rest of the suggestions made by the Legislature. A debate followed, but no resolutions were in order at this stage ; nor did the Legislature divide upon the Budget. It was adopted as passed by the Executive.

From these differences in the constitution and procedure of the Central and Provincial Governments, it must not be supposed that the provincial Governments were less irresponsible with regard to their Legislatures than the Central Government was with regard to its own Legislature. The fact that since 1909 there was no majority of official members in the Provincial Legislature as there was in the Central Legislature was a matter of no moment so far as its practical consequences to the Executive were concerned ; for it is to be remembered that in practice the difference between nominated members from among the non-officials and the official members was only superficial. Both had their mandate from the government who gave them their seats in the Legislature, and as nominees of the Government they voted for the Government, so that, though not in theory, in practice the Provincial Government had as much a standing majority in Legislatures as the Central Government had in theory as well as in practice. Nor did the budget procedure of the Provincial Government mark any decided improvement over that adopted in the Central Government in the matter of giving greater control to the Legislature over the Executive. In both cases the aim was to give the members of the Legislature the privilege of discussing *beforehand* the question of such alteration with reference to the necessities of the Budget, only in the case of the Provincial Budget this privilege was allowed to be exercised at an earlier stage than in the case of the Imperial Budget. But in view of the fact that the Resolutions of the Legislature on the Provincial Budget, as those of the Central Ledgislature on the Imperial, were only recommendations to their respective Executives, this difference between the Budget procedure of the two Governments did not impose any greater control over the one Executive than it did on the other. Again, the provision that a committee of the Provincial Legislature had been allowed the privilege of framing the non-obligatory portion of the Provincial Budget did not give the Legislature any appreciable control *over* the Executive. First of all, the Provincial Government could always restrict the scope of this Budget Committee by transferring any head from the class of non-obligatory expenditure to the class of obligatory expenditure. Besides this, the operation of certain other rules of Budget procedure based upon general principles of public finance tended directly to restrict the powers of the committee to put forth schemes of alternative or additional expenditure. It was rightly provided that schemes involving recurring expenditure could only be proposed with due regard to the rate of growth of recurring revenues and recurring expenditure. Owing to this rule, the committee had to drop proposals which involved recurring expenditure, but which were desirable from its standpoint. On the other hand, similar proposals made by the Executive could be easily carried through by the device freely adopted of obtaining previous sanction of the Government of India. The consequence was that in all the Provincial Budgets presented under the new rules the amount of this "unallotted" fund left to the discretion of the committee bore too insignificant a proportion to the total expenditure in the budget to make the Provincial Executive in any real degree amenable to the Provincial legislature.

No really responsible government could, however, be introduced in the provinces without first of all making a complete change in the mutual relations between the Central Government and the different Provincial Governments in India. The relation between the two which existed before the passing of the Act of 1919 was one of complete subordination of provincial Governments to the Central Government.[1] In this bond of subordination we can discern three strands—legislative, financial, and administrative. Of these three we have seen how tight was the financial strand. The Government of India's control over revenues and expenditure was derived from Parliamentary Statutes which treated the revenues of India as one and applied them to the purposes of the Government of India as a whole. It is true that this provision was not so strictly construed as absolutely to prevent the appropriation of particular sources of income to specific purposes all-India or provincial. Or else the development of the provincial system of finance would have been impossible. But it certainly had the effect of denying to Provincial Governments any inherent legal right to the revenues which they raised. The Government of India completely controlled taxation imposed in British India, apart from the local taxes which were raised by local bodies. Taxation could only be levied by law,[2] but the law had forbidden a Provincial Legislature, without the previous sanction of the Government of India, to consider

> "any law affecting the public debt of India or the customs duties or any other tax or duty for the time being in force and imposed by the authority of the Governor-General in Council for the general purposes of the Government of India."

[1] Report on Indian Constitutional Reforms, Cd. 9109 of 1918, Ch. V.

[2] There is, however, a glaring exception. The land revenue in India has been raised without any legislative sanction. The exclusion of land revenue from the province of the legislature practically removed between 40 and 50 per cent. of the net public revenue from any sort of control.

This is the natural corollary of the statutory hypothecation of all-India revenues to all-India needs. The law would not inhibit a provincial legislature from exploiting for provincial purposes any new source of taxation which it had the ingenuity to discover. But even in that case the project would, before being translated into action, have to secure the assent of the Finance Department of the Government of India, which would not give its sanction without considering closely if it trespassed on the Central Government's sources of taxation. Again, the provision of the law which required that

> " no governor or governor in council (of a province) shall have the power of creating any new office or granting any salary, gratuity or allowance without the previous sanction of the Governor General of India in Council"

had given the Government of India a right of control over expenditure in the Provinces which was exercised through the instrumentality of a series of codes of instructions, such as the Civil Service Regulations, the Civil Account Code, the Public Works Code and the like. These codes partly dealt with the mechanism of finance such as the maintenance of a uniform system of audit and accounts, the custody of public money, remittances, economy, and such matters ; but they also imposed definite restraints upon the powers of Provincial Governments, to create new appointments or raise emoluments and other matter such as recruitment, promotions, leave, foreign service and pensions upon which the codes really constitute a digest of the case-law laid down from time to time by the Government of India which the Provincial Governments must strictly obey. If their powers of taxation and expenditure were strictly controlled the power of borrowing was never conceded to the provinces. It will be recalled that Port Trusts and Municipalities might raise loans within defined limits, but because the revenues of India were legally one and indivisible and were liable for all debts incurred for the purposes of the Government of India, Provincial Governments possessed no separate resources *on* the security of which they could borrow.

Even within the prescribed limits of Provincial Finance the Provincial Governments were not free from the control of the Central Government. Because the provincial settlements were based not on provincial revenues but on provincial needs, a central control was inevitable. The Government of India could not allow a Province to go bankrupt. But if the Government of India were responsible for provincial solvency they must be in a position to control provincial expenditure. Again, as regards revenues, so long as the Government of India took a share in the proceeds they had a strong motive not only in interfering in the Budget estimates of the provinces, but also in interfering in details of administration. Their interest in land revenue, for example, inevitably led them to close supervision over revenue settlements, and the control tended to become tighter in cases where expansion and development of a source of revenue, such as irrigation, depended on capital outlay.

The legislative powers of the Provincial Governments had in the same manner been made subject to statutory restrictions. There was no doubt an extensive field in which, so far as the substantive provisions of the Statute were concerned, the legislative competence of the provincial Legislatures was legally unfettered. Actually, however, the power of the local legislatures was curtailed in two ways. In the first place, owing to the fact that in their existence all the Provincial Legislatures were younger, and most of them much younger, institutions than the Central Legislature of the Governor-General, a great part of the field that would have otherwise been open to them was covered by acts of that body, which had always retained a concurrent power of legislation for the country at large. But the field yet remaining open for Provincial Governments in the matter of legislation was further restricted by the fact that the power of the Secretary of State and Parliament to control all-Indian legislation was made operative by means of executive directions, which had made it incumbent on Provincial Governments to submit for the previous sanction of the Government of India and the Secretary of State all their projects for legislation before introduction. It is true that these directions did not apply to private members' Bills ; but inasmuch as a Bill could only be introduced with the leave of the Legislature, and the Provincial Government was in most cases in a position if it chose to do so to oppose such a motion successfully, the Government of India by directions to the Provincial Governments were in a position to control all private provincial legislation almost as effectively as the Provincial Government's Bills.

In carrying on the actual work of administration every Provincial Government was by law required to obey the orders of the Government of India and keep that Government constantly and diligently informed of its proceedings and of all matters which ought, in its opinion, to be reported to that Government, or as to which that Government required information. That was because in law every Provincial Government was placed under the superintendence, direction and control in all matters relating to the Government of its Province. This administrative control of the Government of India was exercised by that Government in the interest of uniformity. It is obvious that in many respects India is one single and undivided country, in which much work had to be carried on on uniform lines. The Civil servants who executed the orders of Provincial governments having been recruited from England on terms guaranteed by the Secretary of State, many questions affecting them could not be determined by any Provincial Government. Again, the development of trade, industry and science throughout India similarly favoured the formulation and pursuit of uniform policies by the Government of India. Even with one law for the whole of India business and industry might have been left to their discretion to administer such matters as statistics, patents, copyright, insurance, income tax, explosives and mining, etc. Not only were the provincial Governments subordinated to the Central Government to follow established lines in the matters of administration, but they were not free to initiate any new policy. It was the Government of india which regarded itself as distinctly charged with the duty of framing policy and inspiring reforms for the whole of India by issuing new orders. To make them effective these orders were often accompanied by handsome grants to Provincial Governments strictly earmarked for the purpose of pushing on some particular feature of the new policy. Not seldom did the Government of India appoint new advising or inspecting officers whose task it was to see that the new energy suddently infused into the system was well maintained and well directed to the chosen ends.

So long as the provincial Governments continued to be bound by such strands to the Government of India there could be no responsible government in the Provinces. No government can be made to serve two masters at one and the same time. To keep the Provincial Governments subordinate to[1] the Government of India and also to make them responsible to popular Legislature would have been inconsistent in theory and vicious in practice. It is quite conceivable that under such a double government the wishes of the Provincial Legislature on certain matters may not coincide with those of the Government of India. On such occasions a Provincial Government may not know whom to obey. If it deferred to the wishes of the Legislature it would be failing in its duty towards the Government of India. Indeed there is on record a case of such a conflict.[2] There was an occasion during the currency of the Morley-Minto Reforms when the Government of Bombay were unsuccessful in their endeavours to persuade the Government of India to sanction certain charges affecting the educational staff. The proposals were locally popular and were again put forward for adoption in a resolution moved in the Bombay Legislature by an elected member. The Bombay Government thereupon accepted the resolution which was carried unanimously, and once more put forward their proposals to the Government of India on the ground that they had the Legislature's entire support. But the Government of India and the Secretary of State held that these tactics were out of order and that it was

> "the duty of the Local Government in dealing with the resolutions to uphold with all their authority the decision of the Government of India,"

i.e. to have opposed the resolution even if it agreed with the Legislature in the principle thereof.

The strong ties of subordination which bound the Provinces to the Central Government were therefore the chief obstacles in the path of Provincial autonomy. In order that the Provincial Government be made subject to Provincial Legislatures, the first thing to do was to curtail the powers which the Government of India possessed of interference in provincial finance, provincial legislation, and provincial administration. As was well observed by the authors of the Report[3] on Constitutional Reforms :

> "We have to demolish the existing structure, at least in part, before we can build the new. Our business is one of devolution, of drawing lines of demarcation, of

[1] The degree of subordination it should be noted varied with the status of the Provinces, for which see Joint Report, pp. 37-45.

[2] Joint Report, pp. 75-6.

[3] Joint Report, p. 101.

> cutting long-standing ties. The Government of India must give and the Provinces must receive ; for only so can the growing organism of self-government in the Provinces draw air into its lungs and live."

The path to provincial independence therefore lay through a satisfactory division of functions and finances between the Provincial and Central Governments. Of the two, the task of dividing the functions was comparatively an easier one. For facilitating the necessary division of functions the following principles were laid down by the Government of India.[1]

> "7. There are certain subjects which are at present under the direct administration of the Government of India. The Government of India maintain separate staffs for their administration and the Provincial Governments have no share in it. The category is easily recognizable, and for the most part there will not be much room for doubt as to the subjects to be included in it. At the other end of the line are matters of predominantly local interest which, however much conditions must vary between Provinces, will, generally speaking be recognized as proper subjects for provincialization.
>
> "8. Between these extreme categories, however, lies a large indeterminable field which requires further examination before the principles determining its classification can be settled. It comprises all the matters in which the Government of India at present retain ultimate control, legislative and administrative, but in practice share the actual administration in varying degrees with the Provincial Governments. In many cases the extent of delegation practised is already very wide. The criterion which the Government of India apply to these is whether in any given case the Provincial Governments are to be strictly the agents of the Government of India, or are to have (subject to what is said below as to the reservation of powers of intervention) acknowledged authority of their own. In applying this criterion the main determining factor will be not the degree of delegation already practised, which may depend on mere convenience, but the consideration whether the interests of India as a whole (or at all events interests larger than those of one Province), or on the other hand the interests of the Province essentially preponderate.

[1] Memorandum for the Functions Committee by the Government of India, Annexture II to the Report of the Committee Cmd. 103 of 1919.

> " The point is that delegation to an agent may be already extensive, but that circumstance should not obscure the fact of agency or lead to the agent being regarded as having inherent powers of his own."

These principles, in which it was stated that "where extra-provincial interests predominate the subject should be treated as central," while

> "all subjects in which the interests of the provinces essentially predominate should be provincial, and in respect of (which) the Provincial governments (to) have acknowledged authority of their own,"

were accepted by the Functions Committee appointed to make a division between all-India and Provincial subjects. The recommendations made by the Committee were with minor amendments embodied in what are called Devolution Rules under section 45A of the Government of India Act of 1919, which gave effect to the policy of responsible government and are made a part of the constitutional law of the land, so that the subjects thereby devolving upon the Provinces became the services over which the Provinces gained an *acknowledged authority of their own* such as they never had before 1833. According to these Devolution Rules the following were declared to be

PROVINCIAL SUBJECTS

1. **Local Self-government,** that is to say, matters relating to the constitution and powers of municipal corporations, improvement trusts, district boards, mining boards of health and other local authorities established in a Province for the purpose of local self-government, exclusive of matters arising under the Cantonments Act, 1910 ; subject to legislation by the Indian Legislature as regards—

(*a*) The powers of such authorities to borrow otherwise than from a Provincial Government, and

(*b*) the levying by such authorities of taxation not included in schedule II to the scheduled Taxes Rules.

2. **Medical administration,** including hospitals, dispensaries and asylums, and provision for medical education.

3. **Public Health and Sanitation and Vital Statistics** ; subject to legislation by the Indian Legislature in respect of infectious and contagious diseases to such extent as may be declared by any Act of the Indian Legislature.

4. **Pilgrims within British India.**

5. **Education,** provided that—

(a) The following subjects shall be excluded, viz.:

(i) The Benares Hindu University, and Aligarh Muslim University, and such other universities constituted after the commencement of these rules, as may be declared by the Governor-General in Council to be Central subjects, and

(ii) Chiefs' Colleges and any institution maintained by the Governor-General in Council for the benefit of members of His Majesty's Forces or of other public servants or of the children of such members of servants; and

(b) the following subjects shall be subject to legislation by the Indian Legislature, namely:

(i) The control of the establishment, and the regulation of the constitutions and functions, of universities constituted after the commencement of these rules ; and

(ii) The definition of the jurisdiction of any university outside the Province in which it is situated, and

(iii) For a period of five years from the date of the commencement of these rules, the Calcutta University, and the control and organization of secondary education in the presidency of Bengal.

6. **Public Works** included under the following heads, namely :

(*a*) Construction and maintenance of provincial buildings used or intended for any purpose in connection with the administration of the Province ; and care of historical monuments, with the exception of ancient monuments as defined in Section 2(i) of the Ancient Monuments Preservation Act, 1904, which are for the time being declared to be protected monuments under Section 3(i) of that Act; provided that the Governor-General in Council may by notification in the *Gazette of India,* remove any such monuments from the operation of this exception ;

(*b*) roads, bridges, ferries, tunnels, ropeways, and causeways, and other means of communication, subject to such conditions as regards control over construction and maintenance of means of communication declared by the Governor-General in Council to be of military importance, and as regards incidence of special expenditure connected therewith, as the Governor-General in Council may prescribe ;

(*c*) tramways within municipal areas ; and

(*d*) light and feeder railways and extra-municipal tramways in so far as provision for their construction and management is made by provincial legislation ; subject to legislation by the Indian Legislature in the case of any such railway or tramway which is in physical connection with a main line or is built on the same gauge as an adjacent main line.

7. **Water Supplies,** irrigation and canals, drainage and embankments, water storage and water power; subject to legislation by. the Indian Legislature with regard to matters of inter-provincial concern or affecting the relations of a Province with any other territory.

8. **Land Revenue administration,** as described under the following heads, namely:

(*a*) Assessment and collection of land revenue ;

(*b*) Maintenance of land records, survey for revenue purposes, records of right;

(*c*) Laws regarding land tenures, relations of landlords and tenants, collection of rents ;

(*d*) Courts of wards, incumbered and attached estates ;

(*e*) Land improvement and agricultural loans ;

(*f*) Colonization and disposal of Crown lands and alienation of land revenue ; and

(*g*) Management of Government estates.

9. **Famine relief**

10. **Agriculture,** including research institutes, experimental and demonstration farms, introduction of improved methods, provision for agricultural education, protection against destructive insects and pests and prevention of plant diseases ; subject to legislation by the Indian Legislature in respect of destructive insects and pests and plant diseases, to such extent as may be declared by any Act of the Indian Legislature.

11. **Civil Veterinary Department,** including provision for veterinary training, improvement of stock, and prevention of animal diseases ; subject to legislation by the Indian Legislature in respect to animal diseases to such extent as may be declared by any Act of the Indian Legislature.

12. **Fisheries.**

13. **Co-operative Societies.**

14. **Forests,** including preservation of game therein ; subject to legislation by the Indian Legislature as regards disforestation of reserved forests.

15. **Land acquisition** ; subject to legislation by the Indian Legislature.

16. **Excise,** that is to say, the control of production, manufacture, possession, transport, purchase and sale of alcoholic liquor and intoxicating drugs, and the levying of Excise duties and licence fees on or in relation to such articles, but excluding in the case of opium, control of cultivation, manufacture and sale for export.

17. **Administration of Justice,** including constitution, powers, maintenance and organization of courts of civil and criminal jurisdiction within the Province ; subject to legislation by the Indian Legislature as regards High Courts, Chief Courts, and Courts of Judicial Commissioners, and any courts of criminal jurisdiction.

18. **Provincial Law Reports.**

19. **Administrators-General and Official Trustees** ; subject to legislation by the Indian Legislature.

20. **Non-Judicial Stamps,** subject to legislation by the Indian Legislature, and **Judicial Stamps,** subject to legislation by the Indian Legislature as regards amount of court fees levied in relation to suits and proceedings in the High Courts under their original jurisdiction.

21. **Registration of deeds and documents;** subject to legislation by the Indian Legislature.

22. **Registration of births, deaths, and marriages** ; subject to legislation by the Indian Legislature for such classes as the Indian Legislature may determine.

23. **Religious and Charitable endowments.**

24. **Development of Mineral resources which are Government property** ; subject to rules made or sanctioned by the Secretary of State, but not including the regulation of mines.

25. **Development of industries,** including industrial research and technical education.

26. **Industrial matters** included under the following heads, namely:—

(*a*) Factories;

(*b*) Settlement of labour disputes ;

(*c*) Electricity;

(*d*) Boilers;

(*e*) Gas;

(*f*) Smoke nuisance ; and

(*g*) Welfare of labour, including provident funds, industrial insurance (general health and accident) and housing :

subject as to heads (a), (b), (c), (d), and (g) to legislation by the Indian Legislature.

27. **Stores and Stationery** ; subject in the case of imported stores and stationery to such rules as may be prescribed by the Secretary of State in Council.

28. **Adulteration of food-stuffs and other articles** ; subject to legislation by the Indian Legislature as regards import and export trade.

29. **Weights and Measures** ; subject to legislation by the Indian Legislature as regards standard.

30. **Ports,** except such ports as may be declared by rule made by the Governor-General in Council or by or under Indian legislation to be major ports.

31. **Inland Waterways;** including shipping and navigation thereon so far as not declared by the Governor-General in Council to be Central subjects, but subject as regards inland steam-vessels to legislation by the Indian Legislature.

32. **Police**; including railway police ; subject in the case of railway police to such conditions as regards limits of jurisdiction and railway contributions to cost of maintenance as the Governor-General in Council may determine :

(*a*) Regulation of betting and gambling ;

(*b*) prevention of cruelty to animals ;

(*c*) protection of wild birds and animals ;

(*d*) control of poisons, subject to legislation by the Indian Legislature ;

(*e*) control of motor vehicles, subject to legislation by the Indian Legislature as regards licences valid throughout British India; and

(f) control of dramatic performances and cinematographs, subject to legislation by the Indian Legislature in regard to sanction of films for exhibition.

34. **Control of Newspapers, Books, and Printing Presses** ; subject to legislation by the Indian Legislature.

35. **Coroners.**

36. **Excluded Areas.**

37. **Criminal tribes** ; subject to legislation by the Indian Legislature.

38. **European vagrancy** ; subject to legislation by the Indian Legislature.

39. **Prisons** ; prisoners (except State prisoners) and reformatories ; subject to legislation by the Indian Legislature.

40. **Pounds** and prevention of cattle trespass.

41. **Treasure Trove.**

42. Libraries (except the Imperial Library) and **Museums** (except the Indian Museum, the Imperial War Museum and the Victoria Memorial, Calcutta) and **Zoological Gardens.**

43. **Provincial Government Presses.**

44. **Elections** for Indian and provincial legislature, subject to rules framed under section 64 (i) and 72A (4) of the Act.

45. **Regulations of medical and other professional qualifications and standards**; subject to legislation by the Indian Legislature.

46. **Local Fund audit,** that is to say, the audit by Government agency of income and expenditure controlled by local bodies.

47. **Control** as defined by rule 10, **of members of all-India and Provincial Services** serving within the Province, and control, subject to legislation by the Indian Legislature, of public services within the province, other than all-India services.

48. **Sources of Provincial revenue,** not included under previous heads, whether—

(*a*) Taxes included in the schedules to the scheduled taxes Rules, or

(*b*) Taxes, not included in those schedules, which are imposed by or under provincial legislation which has received the previous sanction of the Governor-General.

49. **Borrowing of money** on the sole credit of the Province, subject to the provisions of the Local Government (Borrowing) Rules.

50. **Imposition** by legislation of punishment by **fine, penalty, or imprisonment,** for enforcing any law of the Province relating to any provincial subject; subject to legislation by the Indian Legislature in the case of any subject in respect of which such a limitation is imposed under these rules.

51. **Any matter** which, though falling within a Central subject, is **declared by the Governor-General in Council to be of a merely local or private nature within the province.**

52. **Matters pertaining to a Central subject in respect of which powers have been conferred by or under any law upon a Local Government.**

The second task that of allocating the revenue resources between the Central and provincial Governments was a comparatively difficult one. As the problem was conceived in the main as one of making the Provinces independent of the Government of India in matters in which it was proposed that they should acquire an authority of their own acknowledged by law it was natural for the authors of the Report on constitutional Reforms to hold that

> "Our first aim......has been to find some means of entirely separating the resources of the Central Government from those of the Provinces."

The first step in that direction was therefore to abolish the system of "divided heads" or budget by shared revenues, for there was a concensus of opinion that this coparcenary system, in so far as it gave a handle to the Central Government to interfere in the domestic affairs of the Provinces, was a source of friction and was incompatible with provincial independence. But such a system of complete separation was fraught with two main difficulties. The first difficulty was in connection with the disposal of dividend heads. To whom should they be handed over ? At the time the scheme of complete separation was contemplated the heads of revenue which were divided in all or some of the Provinces were land revenue, stamps, excise, income tax and irrigation. The authors of the Report on Constitutional Reforms proposed[1]

> "......that the revenue from stamp duty should be discriminated under the already well-marked sub-heads *General* and *Judicial*; and that the former should be made an Indian and the latter a provincial receipt. This arrangement will preserve uniformity in the case of commercial stamps where it is obviously desirable to avoid discrepancies of rates ; and it will also give the provinces a free hand in dealing with court-fee stamps and thus provide them with an additional means of augmenting their resources. Excise is at present entirely a provincial head in Bombay, Bengal, and Assam, and we see no valid reason why it should not now be made provincial throughout India...... Land revenue, which is far the biggest head of all, is at present equally shared between the Indian and all the provincial Governments, except that Burma gets rather more than one-half and the United Provinces get rather less...... Now land revenue assessment and collection is so intimately concerned with the whole administration in rural areas that the advantages of making it a provincial receipt are obvious...... Moreover, famine expenditure and expenditure on major irrigation works are for obvious reasons closely connected with land revenue, and if the receipts from that head are made provincial it logically follows that the Provinces should take over the very heavy liability for famine relief and protective works......We were told that in the days of dawning popular government in the Provinces it would be well that the provincial government should be able to fall back on the support of the Government of India (as, if the head were still divided, it would be able to do) when its land revenue policy was atttacked.[2] But it is just because divided heads are not

[1] Report, pp. 165-7.

[2] The land revenue policy of the Government has always been looked upon by the popular leaders, rightly or wrongly, with a certain degree of suspicion, and is always in danger of being attacked. For fear that the policy may be subverted under a popular Provincial Legislature to whose control land revenue as a provincial subject was subjected it provided by the Reservation of Bills Rules under Section 12 (1) of the Government of India Act, 1919, that—The Governor of any Governor's province *shall* reserve for the consideration of the Governor-General any Bill, not having been previously sanctioned by the Governor-General, which has been passed by the legislative Council of the Province and

regarded as merely a financial expedient but are, and so long as they survive will be, viewed as a means of going behind the provincial government to the Government of India, that we feel sure that they should be abolished. We propose therefore to make land revenue together with irrigation wholly provincial receipts. It follows that the Provinces will become entirely liable for expenditure on famine relief and protective irrigation works......The one remaining head is income tax. We see two very strong reasons for making this an Indian receipt. First, there is the necessity of maintaining a uniform rate throughout the country. The inconveniences, particularly to the commercial world, of having different rates in different Provinces are manifest. Secondly, in the case of ramifying enterprises with their business centre in some big city, the Province in which the tax is paid is not necessarily the Province in which income is earned. We have indeed been told that income tax is merely the industrial or professional complement of the land revenue ; and that to provincialize the latter, while Indianizing the former, means giving those provinces whose wealth is more prominently agricultural, such as the United Provinces and Madras, an initial advantage over a Province like Bombay, which has very large commercial and industrial interests. Another very practical argument is that the tax is collected by provincial agency and that if Provincial Governments are given no inducement, such as a share of the receipts or a commission on the collections which is only such a share in disguise, there will be a tendency to slackness in collection and a consequent falling off in receipts. We admit that these arguments have force; but we are not prepared to let them stand in the way of a complete separation of revenues. Equality of treatment as between one Province and another must be reached so far as it is possible in the settlements as a whole, and it is

is presented to the Governor for his assent, if the Bill appears to the Governor to contain provisions—

(*e*) affecting the land revenue of a Province either so as to

(i) prescribe a period or periods within which any temporary settled estate or estates may not be re-assessed to land revenue, or

(ii) limit the extent to which the assessment to land revenue of such an estate or estates may be made or enhanced, or

(iii) modify materialy the general principles upon which land revenue has hitherto been assessed, if such prescription, limitation or modification appears to the Governor to be likely seriously to affect the public revenues of the province.

> not possible to extend the principle of equality to individual heads of revenue. If it should be found that receipts 'fall off, it may be necessary to create an all-India agency for the collection of the tax, but this we should clearly prefer to retaining it as a divided head. To sum up : we propose to retain the Indian and Provincial heads as at present, but to add to the former income tax and general stamps, and to the latter land revenue, irrigation, excise and judicial stamps. No head will then remain divided."

However, when all the existing sources of revenue were completely distributed between the Central and Provincial Governments as proposed, it was inevitable that there should be a deficit in the Budget of the Government of India. How to make up this deficit was therefore the second difficulty that was involved in replacing the system of divided heads by a system of separate heads of revenue. The authors of the Report on Constitutional Reforms were presented with many a plan for the solution of this knotty problem, lathe course of their survey they observed :[1]

> "One way of meeting it would be to maintain the basis of the present settlements, but to allot to the Government of India a certain proportion of growing revenue instead of its share of the divided heads. But this device would stereotype all the existing inequalities between the Provinces which by reason of the permanent settlement in some of them are considerable ; while it would also introduce an element of great uncertainty into the Indian Government's finance. A second was that we should take an all-round contribution on a *per capita* basis. But this expedient also would not obviate very undesirable variations between Provinces in the rate of levy owing to the inequality of provincial resources and of provincial needs. A third plan was to take an all-round percentage contribution based on gross provincial revenue. This is open, *inter alia,* to the objection that it would leave several of the Provinces with large deficits. Fourthly, we considered but rejected the proposal that Provinces which had a surplus should temporarily help others as being cumbrous and impracticable."

[1] Report, p. 168.

The plan recommended by the authors of the Report was[1]

> "to assess the contribution from each Province to the Government of India as a percentage of the difference between the gross provincial revenue and the gross provincial expenditure";

in other words, a levy on the surplus of the estimated gross revenue of the Province when all divided heads are separately allotted over its estimated normal expenditure, including expenditure on famine relief and protective irrigation. On the basis of the Budget figures for 1917-18 it was found that it would require a levy of 87 per cent.[2] on the provincial surpluses to make up the deficit of Rs. 1363 lakhs in the Budget of the Government of India found likely to be caused by the abolition of the system of divided heads.[3]

[1] Report, p. 169.

[2] The suggested imposition of an equal rate of levy is somewhat strange, for the authors of the Report had in para. 206 protested that "equality of contribution was impracticable," etc. Para. 206 of the Joint Report makes a confusion. It protests against equality of contributions, which is what it adopts in the plan it recommends.

[3] The way in which the proposed plan would have worked out in practice can be gathered from the following figures given in the Report, Cal. Ed. (p. 134), and based on the Budget figures for 1917-18:—

(In Lakhs of Rupees)

Province	Gross Prov. Revenue	Gross Prov. Expenditure	Gross Prov. Surplus	Contribution (87 per cent. of Col. 4)	Net Prov. Surplus
1	2	3	4	5	6
Madras …	13,31	8,40	4,91	4,28	63
Bombay …	10,01	9,00	1,01	88	13
Bengal …	7,54	6,75	79	69	10
United Provinces …	11,22	7,47	3,75	3,27	48
Punjab …	8,64	6,14	2,50	2,18	32
Burma …	7,69	6,08	1,61	1,40	21
Bihar and Orissa …	4,04	3,59	45	39	6
Central Provinces …	4,12	3,71	41	36	5
Assam …	1,71	1,50	21	18	3
Total …	68,28	52,64	15,64	13,63	2,01

N.B.—The Punjab figures in column 5 should be reduced and those in column 6 raised by $3^1/_2$, lakhs in each case to allow for the continued compensation which the province is entitled to receive for the cession of a crore of its balances to the Government of India in 1914.

In making these recommendations the authors of the Report were careful to observe :[1]

> "One caveat we are bound to make. Emergencies may arise which cannot be provided for by immediate raising Government of India taxation ; and in that case it must be open to the Central Government to make a special supplementary levy upon the provisions. We must add that inasmuch as our proposals are based on war figures they should be open to revision hereafter, but not subject to change for a period of say six years, and to avoid intermediate discussion the scheme should in the meantime be regarded as part of the constitutional agreement with the Provinces. It should also be one of the duties of the periodic commission which we propose should be appointed to examine the development of constitutional changes after ten years' experience of their working or of some similar body at that time, to re-investigate the question of the provincial contributions to the Government of India."

These proposals were put before the Provincial Governments, for their opinion. The objections to a plan which appeared to make some Provinces bear a greater burden of the cost of the Central Government than others readily suggested themselves. Madras and the United Provinces seemed to pay 47.4 per cent. and 41.1 per cent, of their surpluses to the Government of India, while Bombay and Bengal appeared to escape with a sacrifice of no more than 9.6 per cent, and 10.1 per cent, of their respective surpluses. The inequity of this treatment seemed to be so very apparent that the Provinces against which a greater burden was set down raised loud protests. So impressed was the Government of India with the justice of this clamour that in its letter[2] to the Secretary of State it observed :

> "We recommended that the initial contributions should be recognized as temporary and provisional, and that steps should be taken as soon as possible to fix a standard and equitable scale of contributions……The whole question…… requires skilled investigation ; (the difficulty of the position was

1 Report, p. 170.

2 Dated March 5, 1919 (para. 61), on the questions raised in the Report on Indian Constitutional Reforms, pp. Cmd. 123 of 1919.

foreseen in the Report and investigation by the first statutory commission was promised, but) we propose that a Committee on Financial Relations be appointed, either by you or by us, to advise fully upon the subject, so that each province may know exactly how it stands before the new regime starts."

And this recommendation was endorsed[1] by the Joint Select Committee of Parliament which sat on the Reform Bill. Accordingly the Secretary of State appointed a Committee under the chairmanship of Lord Meston to advise on :

(*a*) The contributions to be paid by the various provinces to the Central Government for the financial year 1921 -22;

(*b*) The modifications to be made in the provincial contributions thereafter with a view to their equitable distribution until there ceases to be an all-India deficit;

(*c*) The future financing of the provincial loan accounts ; and

(*d*) Whether the Government of Bombay should retain any share of the revenue derived from income tax.

After about seven weeks of investigation the Committee produced its Report.[2] In advisinng on clause (a) of its terms of reference the Committee expressed its dissatisfaction of the plan set forth in the Joint Report of taking from the Provinces a fixed uniform proportion of their respective surpluses as their contributions to the Central Exchequer. The principal objection urged against the plan was that in some Provinces it left no surplus and in others no adequate surplus after the payment of their respective quotas of contributions. The Committee held, and rightly too, that

"in no case may a contribution be such as would force the province to embark on new taxation *ad hoc,* which to our minds would be an unthinkable sequel to a purely administrative rearrangement of abundant general resources."

The Committee felt itself bound by a limiting consideration in providing the contribution, as a result of which it felt itself obliged

[1] Report of the Joint Select Committee on the Government of India Bill (part V, clause 41, para. 9)—House of Commons Return 203 of 1919, p. 12.

[2] Report of the Committee appointed by the Secretary of State for India to advise on the question of the Financial Relations between the Central and Provincial Governments in India, pp. Cmd. 724 of 1919, Ch. III.

> "to leave each *Province* with a reasonable working surplus"— a surplus which it preferred "to calculate, so far as possible, with some relation to the general financial position of the Province and the more imminent claims upon its resources."
>
> " To be able to comply with the requirements of leaving each Province with a surplus, and of inaugurating the new Councils without the necessity of resort to fresh taxation,"

the Committee deemed that the most equitable plan to be to take, not *equal* contributions as the Joint Report advised,[1] but *unequal* contributions from the surpluses of the Provinces liable to make them.

For the consummation of its plan the Committee held that the augmentation of Provincial Surpluses was an essential step. Without it, it deemed its task to be futile. The only way to augment the provincial surplus was to allocate some other source of Imperial revenue in addition to those already provincialized. To the provincialization of the income tax, a matter which was included in clause (d) of its terms of reference so far as Bombay was concerned, the Committee being impressed by the reasonings of the Joint Report, felt bound to oppose. As an alternative it recommended that *General Stamps* should be provincialized, as means of augmenting provincial surpluses, along with *Judicial Stamps*. The effect of this transfer of *General Stamps* from the all-India list to the provincial list was to increase the provincial resources and diminish those of the Central Government. That deficit the Committee accepted as amounting in the year 1921-2 to ten crore, composed of six crores previously

[1] The Report of the Financial Relations Committee seems to argue that the difference between its plan of levying contributions and that suggested in the Joint Report is a difference in the *basis* of the contributions ; its basis being that of "increased spending power", while that of the Joint Report was "gross provincial surplus." The Financial Repations Committee pointedly criticized the method proposed in the Joint Report to assess the contribution from each province " as a percentage of difference between the gross provincial revenue and the gross provincial expenditure." There does not seem to be much difference between that scheme and the scheme of the Committee consisting of a percentage levy on what is called increased spending power of the provinces under the new distribution of the revenues between the Central and Provincial Governments. That these two are different bases of assessment seems to be the general impression (cf. the speech of the Hon. Rai Bahadur Bakshi Sohan Lal on the Resolution *re* Provincial Contributions to the Central Exchequer, Legislative Assembly Debates, Vol. III, No. 8, p. 508). This of course is an error; for spending power is simply another name for gross surplus. The change made by the Committee was in proposing unequal contribution in place of equal contribution. It kept unchanged the basis of the assessment.

estimated by the Government of India[1] *plus* four crores for the loss of *General Stamps,* the revenue from which the Committee gave to the Provinces. This amount subject to certain adjustments,[2] which when made resulted in a clear deficit of 9,83.06 lakhs net. In strict adherence to the limiting consideration which it felt bound to respect, the Committee proceeded to fix the following ratios in which each of the nine Provinces were to contribute to make up this amount of 9,83 lakhs in the year 1921-2 :—

INITIAL CONTRIBUTIONS (IN LAKHS OF RUPEES)

Provinces	Increased spending power under new distribution of Revenue	Contributions as recommended by the Committee	Increased spending power left after Contributions are paid
Madras ...	5,76	3,48	2,28
Bombay ...	93	56	37
Bengal ...	1,04	63	41
United Provinces ...	3,97	2,40	1,57
Punjab ...	2,89	1,75	1,14
Burma ...	2,46	64	1,82
Bihar and Orissa ...	51	*nil*	51
Central Provinces ...	52	22	30
Assam ...	42	15	27
Total ...	18,50	9,83	8,67

This ratio of initial contributions was not intended in any manner by the Committee "to represent the ideal scale on which the Provinces should have in equity to be called upon to contribute." Indeed in making its recommendations as to initial contributions the Committee paid less attention to equity of contributions and more to

> "established programmes of taxation and expenditure and legislative and administrative expectations and habits, that cannot without serious mischief be suddenly adjusted to a new

[1] Recommendations of the Government of India regarding the Demarcation between Central and Provincial Revenues, Cmd. 334 of 1919, Statement III.

[2] These adjustments were, with regard to the Military Police Force in Burma, the payment of pensions and leave allowances. Cf. Report of the Financial Relations Committee, para. 10.

and more equitable ratio of contributions widely different (as an equitable ratio must admittedly be) from that of the past. It is accordingly inevitable, if such mischief is to be avoided, that the ratio for initial contributions should bear little relation to that which would be ideally equitable." But the Committee also recognized that "an initial ratio of this nature can only be defended as a measure of transition. It is necessary, but it is necessary only in order to give time to the provinces to adjust their budgets to a new state of affairs; and we are clearly of opinion that no scheme of contribution can be satisfactory that does not provide for a more equitable distribution of the burden of the deficit within a reasonable time."

The Committee therefore proceeded next to consider the question of *standard* contributions as distinguished from *initial* contributions, which were only transitional. As to what should be the ideal basis for such an equitable distribution of the burden the Committee felt quite certain ; for it stated that

> "to do equity between the provinces it is necessary that the total contribution of each to the purse of the Government of India should be proportionate to its capacity to contribute."

Two questions were involved in translating this principle into practice. What is the *total* contribution of a province to the purse of the Government of India ? Secondly, what is the measure of the capacity of a Province to contribute ? With regard to the first the Committee observed that

> "the total contribution of a Province to the purse of the Government of India will consist in future of its direct contributions towards the deficit, together with its indirect contribution (as at present) through the channels of customs, income tax, duties on salt, etc.";

in other words, the pressure of the taxes from within its jurisdiction for the benefit of the Central Government. With regard to the second the Committee held that

> "the capacity of a Province to contribute is its taxable capacity, which is the sum of the incomes of its taxpayers, or the average income of its taxpayers multiplied by their number."

The Committee was frank in its avowal of the fact that the data available was not sufficient for a direct quantitative evaluation either of the total net contribution which a Province made to the Government of India or of its capacity to contribute, and held that it was

> "useless to attempt to state a formula, to serve as a basis for a standard ratio of contributions, capable of automatic application from year to year by reference to ascertained statistics."

None the less the Committee did not abandon the ideal basis it had selected for fixing the standard contributions. For it observed:

> "We are able, after surveying such figures as are available and after close inquiry into the circumstances of each Province, to recommend a fixed ratio of contributions which in our opinion represents a standard and equitable distribution of the burden of any deficit. In arriving at this ratio we have taken into consideration the indirect contributions of the Provinces to the purse of the Government of India, and in particular the incidence of customs duties and of income tax. We have inquired into the relative taxable capacities of the Provinces, in the light of their agricultural and industrial wealth and of all other relevant incidents of their economic positions, including particularly their liability to famine. It should be observed that we have considered their taxable capacities not only as they are at the present time, or as they will be in the immediate future, but from the point of view also of the capacity of each Province for expansion and development agriculturally and industrially, and in respect of imperfectly developed assets such as minerals and forests. We have also given consideration to the elasticity of the existing heads of revenue which will be secured to each Province, and to the availability of its wealth for taxation."

After estimating, to the best of its ability, the weight which should be given to each of these circumstances, the Committee recommended the following fixed ratio as representing an equitable basis for the relative contributions of the Provinces to meet the deficit in the Budget of the Government of India :—

STANDARD CONTRIBUTIONS

Province		...	Per cent. Contribution to Deficit.
Madras	...	...	17
Bombay	...	...	13
Bengal	...	...	19
United Provinces	...	...	18
Punjab	...	...	9
Burma	...	...	6½
Bihar and Orissa	...	...	10
Central Provinces	...	...	5
Assam	...	...	2½
	Total	...	100

The Committee agreed that there should be an interval of time sufficient to enable the Provinces to adjust their budgets to the new conditions before they should in equity be called upon to contribute according to this standard ratio.[1] But the Committee thought that the interval allowed for adjustment should not be unduly prolonged.

> " The initial ratio which," the Committee said, "we have proposed is a practical necessity, but the Provinces which will be called upon to pay thereunder more than they should pay in equity, ought not to be required to bear that burden for a longer period or to a greater extent than is required to prevent dislocation of the provincial budgets."

The Committee therefore proposed

> "that contributions should be made on the standard ratio to any deficit that there may be in the seventh year of

[1] For a good piece of criticism of the basis *adopted by* the Financial Relations Committee in arriving at the standard ratio, see para. 12 of a rather splenetic letter from Rai Bahadur K. V. Raddi to the Reforms Commissioner, Simla, pp. Cmd. 974 of 1920, p. 58.

contribution, and that the process of transition from the initial to the standard ratio should be continuous beginning in the second year of contribution, and proceeding in six equal annual steps."

The following table shows the initial, intermediate, and ultimate ratios of contributions for the seven years in accordance with the recommendations of the Committee :—

PER CENT. CONTRIBUTIONS TO DEFICIT IN SEVEN CONSECUTIVE YEARS BEGINNING WITH THE FLRST YEAR OF CONTRIBUTION
(rounded off to even halves)

Province	1st Year	2nd Year	3rd Year	4th Year	5th Year	6th Year	7th Year
Madras	35½	32½	29½	26½	23	20	17
Bombay	5½	7	8	9½	10½	12	13
Bengal	6½	8½	10½	12½	15	17	19
United Provinces	24½	23½	22½	21	20	19	18
Punjab	18	16½	15	13½	12	10½	9
Burma	6½	6½	6½	6½	6½	6½	6½
Bihar and Orissa	*nil*	1½	3	5	7	8½	10
Central Provinces	2	2½	3	3½	4	4½	5
Assam	1½	1½	2	2	2	2	2½
Total	100%	100%	100%	100%	100%	100%	100%

These recommendations were accepted by the Government of India and the Secretary of State. But when the rules in which they were embodied came before the Joint Select Committee of Parliament appointed to revise the draft rules made under the Government of India Act, for consideration, the Committee made some important alterations in the allocation of revenues and contributions from the Provinces. In its Report[1] the Joint Committee recognized

" the intricacy of the problem with which the Financial Relations Committee had to deal, and the difficulty, amounting

[1] Second Report of the Joint Committee appointed to revise the draft rules made under the Government of India Act, pp. 172 of 1920, pp. 2-3.

almost to impossibility, of arriving at any solution which was likely to be acceptable to all Local Governments...... They believe that such dissatisfaction as the proposals have aroused is inevitable in distributing resources between a Central and Provincial Governments, and that the impossibility of removing by a stroke of the pen inequalities which are the result of long-standing and historical causes have been overlooked." "None the less," the Committee desired, " on grounds of policy, to alleviate the disappointment caused by the restraints which the system of contribution laid on the employment by the provinces of their revenues. As a means of alleviating the burden the Committee suggested :

"(1) That there should be granted to all provinces some share in the growth of revenue from taxation on incomes so far as that growth is attributable to an increase in the amount of income assessed.

"(2) That in no case should the initial contribution payable by any province be increased, but that the gradual reduction of the aggregate contribution should be the sole means of attaining the theoretical standards recommended by the Financial Relations Committee."

Accordingly it is provided in the Devolution Rules that:

(15) There shall be allocated to each Local Government a share in the income tax collected under the Indian Income Tax Act, 1918, within its jurisdiction. The share so allocated shall be three pies on each rupee brought under assessment under the said Act, in respect of which the income tax assessed has been collected. The number of pies to be specified shall be so calculated as to yield at the outset to the Local Governments collectively a sum amounting as near as may be to 400 lakhs.[1]

[1] This arrangement was subject to the following provision attached to Devolution Rule 15:—

(2) In consideration of this allocation, each Local Government shall make to the Governor-General in Council a fixed annual assignment of a sum to be determined by the Governor-General in Council as the equivalent of the amount which would have accrued to the Local Government in the year 1920-21 (after deducting the provincial share of the cost of special income tax establishments in that year) had the pie-rate fixed under sub-rule (1) been applied in that year, due allowance being made for any abnormal delays in the collection of tax.

(3) The cost of special income tax establishments employed within a province shall be borne by the Local Government and the Governor-General in Council in the proportions of 25 per cent, and 75 per cent, respectively.

[contd overleaf]

and that

(17) In the financial year 1921-2 contributions shall be paid to the Governor-General in Council by the Local Governments mentioned below according to the following scale :—

Name of the Province		Contributions (in lakhs of rupees)
Madras	... ...	3,48
Bombay	... ...	56
Bengal	... ...	63
United Provinces	... ...	2,40
Punjab	... ...	1,75
Burma	... ...	64
Central Provinces and Berar	... ...	22
Assam	... ...	15

(18) From the financial year 1922-3 onwards a total contribution of 9,83 lakhs, or such smaller sum as may be determined by the Governor-General in Council, shall be paid to the Governor-General in Council by the Local governments mentioned in the preceding rule. When for any year the Governor-General in Council determines as the total amount of the contribution a smaller sum than that payable for the preceding year, a reduction shall be made in the contributions of those Local Governments only whose last previous annual contribution exceeds the proportion specified below of the smaller sum so determined as the total contribution ; and any reduction so made shall be proportionate to such excess :

Madras	...	...	$\frac{17}{90}$ ths
Bombay	...	...	$\frac{13}{90}$ ths

(4) If in any financial year the total amount payable by a Local Government under sub-rules (2) and (3) in respect of the fixed assignment and the cost of special income tax establishments exceeds the amount of the share of income tax allocated to it under sub-rule (1), the fixed assignment for that year shall be deemed to have been reduced by the amount of such excess.

Bengal	...	...	$\frac{19}{90}$ ths
United Provinces	...	...	$\frac{18}{90}$ ths
Punjab	...	...	$\frac{9}{90}$ ths
Burma	...	...	$\frac{6\frac{1}{2}}{90}$ ths
Central Provinces and Berar			$\frac{5}{90}$ ths
Assam	...	...	$\frac{2\frac{1}{2}}{90}$ ths

(19) In cases of emergency the Local Government of any Province may be required by the Governor-General in Council, with the sanction of the Secretary of State, to pay to the Governor-General in Council a contribution for any financial year in excess of the amount required by the preceding rules in the case of that year.

Two more matters had to be settled in order to make the separation between Provincial and Central Finance as complete as possible. Both were connected with capital transactions. One was the question of the Provincial Loan Account. This Account represented the fund from which a Provincial Government advanced agricultural loans, loans to indebted landholders, to municipalities and other local bodies, etc. The capital was provided by the Government of India as required and was returned to it as it was repaid. The province paid the Government of India interest on the average capital outstanding in each year, recouping itself by higher rates of interest which were supposed to compensate it for bad debts. It was commonly agreed that it was the natural result of the Reforms Scheme that the Provinces should for the future finance their own loan transactions, and that joint accounts of this nature between them and the Government of India should be wound up as quickly as possible. The matter was referred to the Financial Relations Committee and on the basis of its recommendations in that behalf it was provided by Rule 23 of the Devolution Rules that:

"Any moneys which, on the 1st day of April 1921, are owed to the Governor-General in Council on account of advances made from the provincial loan account of any Province shall be treated as an advance to the Local Government from the revenues of India, and shall carry interest at a rate calculated on the average rate carried by the total amount owed to the Governor-General in Council on this account on the 31st March 1921. The interest shall be payable upon such dates as the Governor-General in Council may fix. In addition, the Local Government shall pay to the Governor-General in Council in each year an instalment in repayment of the principal amount of the advance, and this instalment shall be so fixed that the total advance shall except where for special reasons the Governor-General in Council may otherwise direct, be repaid before the expiry of twelve years. It shall be open to any Local Government to repay in any year an amount in excess to the fixed instalment."

The other was the question of responsibility for capital expenditure on irrigation works. In this as in the matter of Provincial Loan Account it was agreed that it would be incompatible with the scheme of complete separation of Provincial Finance to hand over to the former the control of irrigation works and to make the latter responsible for the capital transaction incurred thereon. Hence the rule[1] that:

(1) The capital sums spent by the Governor-General in Council upon the construction in the various Provinces of productive and protective irrigation works and of such other works financed from loan funds as may from time to time be handed over to the management of Local Governments shall be treated as advances made to the Local Governments from the revenues of India. Such advances shall carry interest at the following rates, namely :

(*a*) In the case of outlay up to the end of the financial year 1916-17, at the rate of 3.3252 *per centum*.

(*b*) In the case of outlay incurred after the financial year 1916-17, at the average rate of interest paid by the Governor-General in Council on loans raised in the open market since the end of that year.

(2) The interest shall be payable upon such dates as the Governor-General in Council may fix.

[1] Devolution Rule 24.

Thus was broken the financial and administrative strand which tied the Provincial Governments to the Central Government and prevented the introduction into them of responsible government. As the Provinces thereby acquired "an acknowledged authority of their own" over the services and sources allocated to them it followed that they should have the freedom to borrow in their own name, which was denied to them heretofore. Consequently the Local Government Borrowing Rules' made under the Reforms Act provided that subject to certain conditions :[2]

> "A Local Government may raise loans on the security of the revenues allocated to it for any of the following purposes, namely:
>
> (*a*) To meet capital expenditure on the construction or acquisition (including the acquisition of land, maintenance during construction and equipment) of any work or permanent asset of a material character in connection with a project of lasting public utility, provided that:
>
> (i) the proposed expenditure is so large that it cannot reasonably be met from current revenues, and
>
> (ii) if the project appears to the Governal-General in Council unlikely to yield a return of not less than such percentage as he may from time to time by order prescribe, arrangements are made for the amortization of the debt;
>
> (*b*) to meet any classes of expenditure on irrigation which have under rules in force before the passing of the Act been met from loan funds ;
>
> (*c*) for the giving of relief and the establishment and maintenance of relief works in times of famine or scarcity ;

[1] Rules under Section 2 (*2*) of the Government of India Act, 1919.

[2] The rules required that:

(1) No loan shall be raised by a Local Government without the sanction (in the case of loans to be raised in India) of the Governor-General in Council, or (in the case of loans to be raised outside India) of the Secretary of State in Council, and in sanctioning the raising of a loan the Governor-General in Council or the Secretary of State in Council, as the case may be, may specify the amount of the issue and any or all of the conditions under which the loan shall be raised.

(2) Every application for the sanction of Secretary of State shall be transmitted through the Governor-General in Council.

(*d*) for the financing of the Provincial Loan Account; and

(*e*) for the repayment or consolidation of loans raised in accordance with these rules or the repayment of advance made by the Governor-General in Council."

With the cutting off of the financial and administrative strand there remained only the legislative strand which had so far debarred the growth of provincial autonomy. This legislative strand, as was pointed out before, operated through the principle of requiring previous sanction and subsequent assent of the Government of India. By the rules made under the Reforms Act a field has been marked off for the free exercise of the Legislative powers of the Provinces in which that principle has been dispensed with. So far as the field of tax legislation was concerned it was provided[1] that:

> "The Legislative Council of a Province may, without the previous sanction of the Governor-General, make and take into consideration any law for imposing for the purposes of the Local Government any tax included in Schedule I."

This schedule comprises the following heads of taxation :—

1. A tax on land put to uses other than agricultural.
2. A tax on succession or acquisition by survivorship in a joint family.
3. A tax on any form of betting or gambling permitted by law.
4. A tax on advertisements.
5. A tax on amusements.
6. A tax on any specified luxury.
7. A registration fee.
8. A stamp-duty other than duties of which the amount is fixed by Indian legislation.

In the matter of non-tax legislation the procedure adopted by the rules has been slightly different. In tax legislation the rules stated in what cases previous sanction was not necessary. In non-tax legislation the rules required in what cases previous sanction was necessary. The effect of this difference in the

[1] Rules under Section 10 (3) (a) of the Government of India Act, 1919, Scheduled Taxes Rules.

requirements of the rules of previous sanction' was that while in matters of tax legislation a Provincial Government could only levy certain named taxes, in the matter of non-tax legislation it could do anything provided it did not infringe certain laws. The reasons for this difference are obvious. A widening of the basis of provincial taxation means a narrowing field for imperial taxation. Such a detrimental effect could not flow to the Government in the matter of non-tax legislation, be the non-tax legislative powers of the Provinces howsoever large. The taxing power to be granted to the Provinces had therefore to be more strictly circumscribed than the grant of legislative power. None the less it cannot be denied that the rules regarding previous sanction sufficiently loosened the legislative strand as to permit of the Provinces being autonomous in theory as well as in practice.

This autonomy is well reflected in the new Budget Procedure in the Provinces. Under the old regime the Provincial Budgets had to be passed by the Finance Department of the Government of India, the Provincial Accounts to be supervised by the Accountant-General and audited by the Controller and Auditor-General of the Government of India and appropriation reports submitted to the Finance Department of the Government of India. All this is changed under the new regime. The Provincial Budget, instead of being passed by the Finance Department of the Government of India, is framed by the Finance Department constituted in each Province under the Reforms Act[2] and is voted item by item by the Provincial Legislature.[3] The accounts of the Provinces still continue[4] to be supervised and audited by the

[1] Rules under section 10 (3) (L) of the Government of India Act, 1919, Local Legislature Previous Sanction rules. It should, however, be noted that if a Provincial Bill is such that it does not require previous sanction it does not follow that it can become law under the above rules because it has been assented to by the Provincial Legislation. For, by virtue of another set of Rules made under section 12 (1) of the Government of India Act, 1919, called Reservation of Bills Rules, it is provided that the Governor of a Province *must* reserve some and may reserve other Bills for the subsequent assent of the Governor-General before declaring them law even if the Bills be such as to require no previous sanction.

[2] For the constitution and functions of the Finance Department of the Provinces, see Part III of Devolution rules made under Section I of the Government of India Act, 1919.

[3] See Rules 25 to 32 of the Rules of Business for Provincial Legislative Councils made under Section 11 (5) of the Government of India Act, 1919.

[4] Rules framed under Section 96D (1) of the Government of India Act.

officers of the Government of India, but the important point under the new regime which is the hall-mark of provincial independence is that the appropriation reports, instead of being sent to the Government of India for action, are now sent to the Committee of Public Accounts constituted from amongst the members of the Provincial Legislature which sanctioned the Budget for report that the money voted by the Legislature was spent within the scope of the grants made by the Legislature. Thus is effected the demarcation of the field for the governance of. India into Central and Provincial. Such a demarcation of administrative and financial matters was the dream of many an Indian politician and statesman. It was urged before the Royal Commission on Decentralization and was also urged by the late Mr. Gokhale in his political testament which he left before he died. But all these projects were ill timed and could not be given effect to until the law of the Indian constitution had been altered. Now that such an alteration has been made the ideal of Provincial autonomy bids fair to become real. But before closing this study it may be useful to evaluate the changes of its successful working.

●●

CHAPTER XII

A CRITIQUE OF THE CHANGE

It is obvious that good administration depends upon good finance; for finance is "the fuel of the whole administrative machine." No aspect of the scheme of Reforms therefore demands a closer and more anxious study than the financial arrangements with which the new system of administration starts. The necessity for such an examination is all the greater because this aspect of the Reforms Scheme has received comparatively little intelligent criticism at the hands either of the public or the expert.

The first question to consider is, can the new financial arrangements be said to be *administratively* workable ? To make administrative polities independent by requiring them to finance themselves entirely out of their own respective resources without having to depend upon one another must always be regarded as a very important end to be kept in view in devising a new financial arrangement. It is true that it is not always possible to realize this end, and it may in some cases be actually helpful to their working that the polities should be made mutually dependent; for interdependence, at least in matters of public finance, instead of being an impediment might conceivably furnish a basis for co-operation and strength. None the less independence in finance for each administrative policy is to be sought for wherever possible. There can be no doubt that from this standpoint the system of contributions is better than the system of divided heads. This is not to condemn the system of divided heads. The existence of several concurrent or overlapping tax jurisdictions must always be a source of difficulty whenever an attempt is to be made to distribute the different sources of revenue among the competing tax jurisdictions so as to allow each a sufficiency of funds. The reason is that this distribution of the sources of revenue must not only be governed by considerations of adequacy, but must also be governed by considerations of suitability. " The problem of efficiency of taxation," as Prof. Seligman observes,[1]

[1] *Essays in Taxation* (8th edition, 1913), Chapter XII, "The Relations of State and Federal Finance."

"is naturally of vital importance. No matter how well intentioned a scheme may be, or how completely it may harmonize with the abstract principles of justice, if the tax does not work administratively it is doomed to failure."

Whether among the sources of revenue to be partitioned there are any which are naturally more suitable for utilization by one tax jurisdiction rather than by another depends upon what is the basis of the tax. If the basis of the tax is narrow then the argument in favour of its utilization by a narrower tax jurisdiction will be correspondingly stronger. If its basis is wide then the scales would weigh in favour of its utilization by the broader tax jurisdiction. But as a result of following the dictates of suitability it is not always possible to make a partition such as to give each administrative polity revenues adequate for its purposes. For it may happen that a particular tax is suitable for one jurisdiction while its yield, instead of being necessary for that jurisdiction, may be required for another jurisdiction which is unfit to levy it, or may be partially necessary for both. In such a case, how are the ends of adequacy to be subserved ? Two remedies suggest themselves. One is the adoption of the system of divided heads, and the second is to apportion the deficiency among the several component states and require them to make a definite contribution towards meeting it.[1]

The system of divided heads was by no means peculiar to the Indian fiscal system. It has been adopted in some form or other by many other countries. In England, for instance, the inheritance tax is assessed by the Central Government, but a part of the proceeds is allotted to the Local Government. The same is true of some other taxes in England. In Germany, under the Empire, the proceeds of certain indirect taxes were divided between the federal and state governments. In Canada it is well known that a large part of the provincial revenues is derived from proceeds of taxes that are levied by the federal government.

The prejudice in India against the system of divided heads of revenue is particularly regrettable because it is founded on the view that it is opposed to the principle of separation of revenues. People who opposed it said[2] that it involved divided heads of expenditure which fettered the spending powers of the Provinces and enabled the Government of India directly to interfere in their

[1] 1t will be noted that although the new Indian system is largely a system of contributions it is not without an admixture of the system of divided heads so far as the Income tax is concerned.

[2] R.C.D., Mit of Evid., Vol. VI, Q. 25017-25020; Vol. VIII, Q.35531, 35225-29.

Budget estimates and "to have its finger in every pie" of theirs. The system of divided heads was no doubt characterized by these objectionable features. But division of expenditure is not a necessary accompaniment of division of revenue. Nor is it a necessary incident of it that a polity which shared in the yield of a tax but did not administer it should interfere in calculating the estimates of the yield. Chipped of its evil features, the system of divided heads of revenue is simply another name for what Prof. Seligman calls[1] the system of segregation of source and the division of the yield. The essence of the system consists in the exclusive assessment of a particular source of revenue by one tax jurisdiction, coupled, however, with an apportionment of a part of the proceeds to another tax jurisdiction. The system of divided heads of revenue does not cease to be a system of separation of sources merely because there is the division of the yield. In such a system of divided heads there is a separation because the assessment of the tax is segregated—which is the essence of separation—exclusively in the hands of one tax jurisdiction, and the division of the yield can be so regulated that it need not be incompatible with real separation.

The system of contributions does what the system of divided heads aims to do. Like the system of divided heads it answers the tests of suitability as well as of adequacy by allowing the tax to be administered by the jurisdiction most competent to do it, and also of adequacy by making the taxing jurisdiction hand over a sum to the non-taxing jurisdiction. Essentially the system of divided heads and the system of contributions are alike. The only difference between the two is that so far as the apportionment of proceeds are concerned the one is an itemized arrangement while the other is a lump-sum arrangement. There is therefore really nothing much to choose between them. But this is not altogether a case of merely giving a different name to a discredited system in the hope that it might smell more sweet. For the system of contributions has one real point of superiority as compared with the system of divided heads. It does not merely permit of separation of assessment, but it also makes for a greater separation than does the system of divided heads. Under the system of divided heads the receiving party has still

[1] Op. cit., Chapter XI, "Separation of State and Local Revenues," particularly pp. 365-6.

an anxious concern in the assessment and collection of the tax for any laxity in the administration of a divided head of revenues is bound to affect its interests adversely, and may therefore claim a hand in the administration of the tax. But under the system of contributions there is no room for such a possibility. Its quota being assured it is out of the business of assessing and collecting the tax. There is thus a greater separation under the system of contributions than there can be under the system of divided heads.

When we come to analyse the equity of the new financial arrangements we find that great objections are raised to the system of contributions. But many of these objections are misconceived. It will be recalled that the contributions from the Provinces to the Central Government in India are regulated according to their spending powers. In other words, it is the apportionment by expenditure method of dealing with the deficit. That the method subserves the ends of adequacy is of course obvious. But what does not seem to be so obvious, but which all the same is a great virtue of the system of contributions, is that it promotes economy in the giving as well as in the receiving tax jurisdiction; for extravagence in the contributing tax jurisdiction immediately increases its burden, while extravagance in the receiving tax jurisdiction is directly reflected in enhancing the contributions. None the less, the contributions, it is protested, are inequitous, for they are held to be based not on population, nor on area, nor on wealth, nor on the capacity of the Provinces. It is also complained that the system of contributions according to spending powers is unwise, for it tends to check desirable expenditures in the more progressive Provinces. The latter is, of course, a real objection to the apportionment by expenditure method of contributions in its general form. But it may be said, on the other hand, that in the first place if a jurisdiction is willing to undertake the burdens of a larger expenditure for desirable aims, it will scarcely be deterred by the slight additional burden which might result from the increase in the contribution. Secondly, if it were found that the contribution did produce such a result it would be posible to obviate it by adopting the simple expedient of exempting certain kinds of expenditure which might be deemed to be necessary. What these expenditures should be would be a matter of adjustment, which might differ in different provinces. The virtues of the system of apportionment by expenditure method of levying contributions would still be conserved intact, and its automatic features would work equally well if certain expenditures only, instead of all expenditures, were selected as the basis of calculations.

This objection cannot, however, be urged against the Indian system of contributions. In the first place, the contribution is not a varying sum as is the case in the financial systems of other countries. Because the Provinces are made contributory towards the deficit of the Central Government it is to be remembered that they are not liable to the whole of the central deficit whatsoever it may be from year to year. On the other hand, in ordinary years the Provinces are only liable to make contributions towards meeting what is called the Standard Central Deficit of Rs. 9.83 lakhs. That being the case the contributions do not form an element of uncertainty in the Provincial Budgets. Secondly, the contributions are not a permanent feature of the financial arrangements between the Central and Provincial Governments. The levy of the contributions is contemplated to be only transitional, to allow the Government of India to work out its financial salvation, and the Government of India has promised that they will adopt such a policy as to bring about the extinction of the contributions in as short a time as possible. Lastly, the ratio of the contributions to the standard revenues or expenditure of any of the Provinces is not so great as to place a heavy incubus on their financial system, and not being a varying quantity cannot be said to check useful expenditures by Provinces which propose to incur them.

As a matter of fact whatever may be said against the flaws in the apportionment by expenditure method of levying contributions it would be difficult to deny that the system eminently answers the requirements of equity. It certainly brings about a more equitable[1] distribution of the burden than is possible under other systems. For it may fairly be assumed that expenditures very nearly correspond to the actual abilities of the communities concerned more than do population[2] or area. Not only is the principle equitable in itself, but care has been taken to do equity in its application as between the different Provinces. For we know that the contributions are so regulated as to leave to the Provinces, rich as well as poor, a reserve of spending power in order to enable them to meet such of their pressing needs as may not have been covered by the figure for standard

[1] Cf. Seligman, *op. cit.,* p. 360.

[2] In Germany under the Empire the contributions from the states were apportioned according to population. The same is the case in Switzerland.

expenditure. The main purpose of rejecting equal in favour of unequal contributions was to see that the burden of the contributions did not prevent any of the Provinces from meeting such extra expenditure as may be absolutely necessary. Indeed, no system of contributions can be said to be calculated to produce greater equity than the Indian system.

So far we have examined whether the new financial arrangement is administratively workable and equitable. What we have now to see is : Has the arrangement proved itself to be financially adequate? It will be recalled that the Financial Relations Committee held that the general resources of the country were abundant, and that it required only a wise

(In Thousands of Rupees)

Province		Standard Figures	Revised 1921-2	Budget 1922-3
Madras ...	Revenue	14,98,02	15,58,59	16,76,50
	Expenditure	14,07,20	17.15.93	17,18,55
	Surplus and Deficit	90,82	—1,57,34	—42,05
Bombay ...	Revenue	12,09,70	13,67,13	14,93,06
	Expenditure	11,55,03	16,52,80	15,42,17
	Surplus and Deficit	54,67	—2,85,67	—50,11
Bengal ...	Revenue	8,55,28	8,86,53	10,55,86
	Expenditure	8,61,13	11,10,60	10,36,90
	Surplus and Deficit	—5,85	—2,24,07	18,96
United Provinces ...	Revenue	12,29,88	13,34,31	13,58,67
	Expenditure	12,06,56	14,59,87	13,85,65
	Surplus and Deficit	1,23,32	—1,25,56	—26,98
Punjab ...	Revenue	9,73,51	10,73,76	11,38,26
	Expenditure	9,10,69	12,23,24	12,68,44
	Surplus and Deficit	62,82	—1,49,48	—1,30,18
Burma ...	Revenue	8,24,28	9,99,33	10,00,57
	Expenditure	7,84,78	10,27,51	11,90,70
	Surplus and Deficit	39,50	—28,18	—1,90,13
Bihar and Orissa ...	Revenue	4,30,39	4,46,15	4,62,65
	Expenditure	4,20,70	4,85,97	5,13,80
	Surplus and Deficit	90,69	—39,82	—51,15
Central Provinces ...	Revenue	4,35,37	5,14,80	5,35,23
	Expenditure	4,38,80	5,41,76	5,72,17
	Surplus and Deficit	—3,43	—26,96	—36,94
Assam ...	Revenue	1,81,46	2,01,12	2,08,06
	Expenditure	1,78,25	2,19,45	2,22,58
	Surplus and Deficit	3,21	—18,33	—14,52

plan of distribution in order to leave each Province with a sufficiently large "spending power" or surplus. That the plan recommended by the Committee was calculated to bring about such a result must of course be taken for granted. But when we analyse the Budgets of the different Provinces since the introduction of the Reforms the result appears to be entirely disappointing (see Table, p. 287).

Thus, taking the estimated revenue and expenditure of the nine Provinces for 1922-3, equilibrium between current revenue and expenditure is only to be found in two of them, Burma and Bengal, and in the latter this result could not have been attained but for the temporary remission[1] of its annual contribution to the Central Government, and a programme of taxation calculated to bring in Rs. 140 lakhs. In the rest of the Provinces the deficits of the year aggregated to the large figure of Rs. 7,74 lakhs. This huge deficit was financed by new[2] taxation to the extent of Rs. 3,52 lakhs, and for the rest by drawing on balances and by raising loans from the public and from the Central Government. But as the Secretary of State in his despatch[3] pointed out, this

> "process of financing provincial deficits in part from the accumulated revenue balances of the past will now practically come to an end, as such balances will be generally exhausted by the end of the current financial year .... If the financial stability of the Provinces is not to be undermined, with ultimate jeopardy to the Government of India itself, it is impossible to contemplate the continuance of a series of Provincial deficits financed by borrowing either direct from the public or from the Central Government."

What is to be the remedy ? At the Conference held in Simla in April, 1922, "to consider various matters connected with the financial arrangements between the Central Government and the Provinces," it was disclosed[4] that the Government of India and the Provinces were divided as to the proper solution for the rehabilitation of Provincial Finance on a stable and secure

[1] *Legislative Assembly Debates,* Vol. Ill, No. 8.

[2] Cf. the letter of the Government of India, Finance Department, No. 13 of July 13, 1922, to the Secretary of State.

[3] Cf. the despatch in reply to the above by the Secretary of State (Financial), No. 17 of November 9, 1922.

[4] For a summary of the result of this Conference, see Letter of the Government of India, *supra,* p. 257.

footing. The Provinces proposed an increase in their resources by revising the financial arrangements made by the Reforms Act. On the other hand, the Secretary of State as a mouthpiece of the Government of India urged that

> "Equilibrium can only be achieved by reduction of expenditure and the adoption of measures which will lead to an increase of revenue."[1]

The Provinces were not, however, unanimous in the suggestions they made for the revison of the arrangements effected by the Act. Some like the Government of Bombay suggested a return to the system of "divided heads" while others were opposed to it. But the majority was for securing relief through the abolition of contributions. This attitude of the Provinces towards the new financial arrangements is on the face of it a very unreasonable attitude. They are opposed both to the system of divided heads and the system of contributions as well. This is to have things both ways, and they could certainly have had it if the existing resources of the country had been properly husbanded. Inadequacy of finance is not always the result of a paucity of revenue resources. National prosperity may be great and growing and the increase of national wealth may be proceeding unchecked. If under such circumstances enough revenue is not obtained the fault does not lie with the social income. Rather it is a fault of the government which must be said to have failed to organize and marshal the national resources for fiscal purposes. The same is to some extent true of the Indian Government.

Surveying the national resources of the country, it becomes evident that there are two sources which the Government has not been able to marshal properly. One is the land revenue. It is notorious that land revenue has been the biggest resource to the Government of India. In the collection of the land revenue every landholder is laid under contribution, but the rate of assessment is not periodically enhanced for every one of them. On the other hand, in Bengal and in other parts of India the rate of assessment is permanently settled. Consequently in such parts of india which by the long period of settled government enjoyed by them, and by the consequent influx of capital, have

[1] The despatch of the Secretary of State, *supra*, p. 257.

attained to a greater advance in prosperity than any others, the land revenue yields practically no increase; the land-owners, with enormously increased incomes, contribute nothing to the increase in the financial burdens of the State. Permanent Settlement has ever since the days of Lord Canning been suggested as a panacea for improving the financial condition of the people. After the severe famine of 1860, Lord Canning, then Viceroy and Governor-General of India, recommended the extension of the Permanent Settlement to all parts of india. Sir John (afterwards Lord) Lawrence supported the recommendation, and the two Secretaries of State for india, Sir Charles Wood and Sir Stafford Northcote, approved of the proposal. Fortunately for the country the proposal for making the Permanent Settlement universal was finally rejected in 1883. Some no doubt regarded the decision as unfortunate, and continued the agitation in favour of the permanent Settlement long after. But the real force, if there was any in the agitation, was derived from the motive of putting a limit on the financial resources of an alien and an irresponsible bureaucracy. Those who then agitated in favour of the Permanent Settlement probably did not realize that some day this irresponsible bureaucracy would give place to a responsible government of the people and the Permanent Settlement which it was desired to be instituted as a curb on the unchartered licence of a bureaucracy would result in placing a fetter on the freedom of a popular government to enter upon the path of orderly progress. A bad government may abuse its financial powers, but a government cannot be a good government if there is a serious limitation on its financial powers. It was therefore a good thing that this evil of a permanent settlement was not allowed to spread to the whole of India. But it would have been better if the new financial arrangements had contrived to replace the permanent settlement system of land revenue by a periodical settlement system. That was one important way of augmenting the general resources of the country and thereby giving adequacy to all the governments concerned. Instead of this the financial arrangements were so conceived as not to

> "subject the permanently settled provinces to financial pressure which would have the practical result of forcing them to reconsider the permanent settlement."[1]

If this had been done it would have augmented the general resources to the benefit of all. As it was, not only provision was

[1] Joint Report, p. 171.

made favouring the retention of the Permanent Settlement, but the Bengal Government, which has the largest number of permanently settled holders of land, was later on exempted from contributing to the Government of India which was compelled to meet its deficit in other ways.

Land Revenue therefore is one source which the Government could have marshalled in the interest of giving adequacy to the new financial arrangements. The other source which the Government refuses to tap is the customs revenue. The kind of fiscal policy that was adopted during the pre-Mutiny days, was, as we know it to be, of a suicidal character. The same is true of the post-Mutiny fiscal policy. From the Mutiny up to the present time, the Government of India has never looked upon the customs revenue as a resource to be used to meet the exigencies of the State, and when it has used it, it is only very reluctantly, and never to the fullest, not to mention the circumstances when it has actually reduced its revenue from this source in spite of the crying needs of the exchequer.[1] While the ostensible reason given in favour of such a fiscal policy is that the customs revenue is wrong in principle, everybody knows that the customs revenue is not raised in India because it is feared that under it Indian industries would be protected against English industries. That the whole policy of India has been dictated by the interests of English manufactures is beyond dispute, and the reason for it is not far to seek. The Secretary of State for India, the supreme executive for India, is directly amenable to the English voters, whose primary concern has been to see that their markets are not closed against them. Whether a protectionist policy is good or bad is another question. For the present it is sufficient to note that the Government of India has been subjected to a pernicious kind of limitation on its fiscal powers which prevents it from using a source of revenue which has everywhere else proved to be most elastic and abundant of financial resources. If these limitations were not there the present financial inadequacy in all probability might not have ensued at all, and there would have been no necessity either for adopting the system of divided heads or for imposing contributions. As it is, owing to these limitations on the taxable resources of the country, a deficit in the Budget of the Central Government is inevitable. Given this fact, the adoption of some method of meeting that deficit was imperative, and there is no doubt that

[1] Financial Statement for 1880-81, para. 74.

the system adopted is better than the system it replaced. In the present circumstances of the finances of the Central Government, contributions must be taken as a settled issue. Nor can it be said that the abolition of contributions would restore stability to Provincial Finance. Such no doubt is the prevalent view of the Provincial Governments and also of non-official politicians. The Resolution moved in the Indian Legislative Assembly on the 14th September, 1922, rested on the same view that if the Government of India were only to dispense with the contributions it would immediately restore equilibrium in the financial position of the Provinces. This belief was strengthened by the assumption that the aggregate estimated deficit of all the Provinces disclosed itself to be 352 lakhs of rupees for the financial year 1922-3; and as the total contribution to the Imperial Government by the Provinces aggregated to the sum of 983 lakhs, a remission of this amount would more than wipe off the deficit in the Provincial Budgets. It must, however, be said that the deficit of 352 lakhs of rupees does not disclose the true position of the Provinces as derived from the financial arrangements made by the Act. If we are to deduce the true position of the Provinces as following from the new arrangement we must take note of the new taxation imposed and of the gain to Bengal through the remission of its contribution to the Imperial exchequer. Making adjustments for these, the position of the Provinces as it would have been without contributions may be seen from the following :—

FINANCIAL POSITION OF THE PROVINCES 1922-3
(In thousands of rupees)

Provinces	Revenue	Expenditure	Surplus or Deficit
	Rs.	Rs.	Rs.
Madras	15,99,00	17,18,55	—1,19,55
Bombay	14,32,06	15,42,17	—1,10,11
Bengal	9,15,86	10,99,90	—1,84,04
U.P.	13,58,67	13,85,65	—26,98
Punjab	11,38,26	12,68,44	—1,30,18
Burma	10,00,57	11,90,70	—1,90,13
Bihar and Orissa	4,62,65	5,13,80	—51,15
Central Provinces	5,35,23	5,72,17	—36,94
Assam	2,05,06	2,22,58	—17,52
Total dificit ...	...	...	—8,66,60

According to this calculation the aggregate deficit of the Provinces would have been about 867 lakhs. But we must make some further adjustments to this account. It has not been possible to deduct from the revenues of the Central Provinces the sum derived from the enhancement of the Excise duty in the Provinces. Secondly, the revenues of the Central Provinces for the year 1922-3 include collections of suspended revenue of previous years. If these adjustments were made the aggregate deficit of the Provinces would give rise to a figure which would be barely covered by the remission of contributions. We must therefore conclude that remission of contributions would have at best been a very inadequate measure for removing the financial stringency of the Provinces, even if the problem of financing the extra deficit caused by such remission in the budget of the Central Government were to be ignored.

But if, remission of contributions cannot improve the difficult situation that has arisen with regard to Provincial Finance, we must go to the root of the matter and inquire what are the causes which have brought on that situation. Is it due to the normal expenditure of the Provinces being under-rated ? Or is it due to the normal revenues of the Provinces being over-estimated ? For this purpose we must first ascertain whether the resources allocated to the Provinces were really inadequate to their normal needs. The following table compares the standard receipts and expenditure and shows the margin left between them for covering a probable advance in expenditure.

STANDARD REVENUE AND STANDARD EXPENDITURE

Provinces	Standard Revenue	Standard Expenditure	Excess or Defect of Standard Revenue over Standard Expenditure
	Rs.	Rs.	Rs.
Madras	14,98,02	14,07,20	90,82
Bombay	12,09,70	11,55,03	54,67
Bengal	8,55,28	8,61,13	—5,85
U.P.	12,29,88	11,06,56	1,23,32
Punjab	9,73,51	9,10,69	62,82
Burma	8,24,28	7,84,78	39,50
Bihar and Orissa	4,30,39	4,20,70	9,69
C. P.	4,35,37	4,38,80	—3,43
Assam	1,81,46	1,78,25	3,21

From this it is obvious that except in the case of two Provinces the standard revenue has left a sufficient margin over standard expenditure. Only in Bengal and Central Provinces there was no margin, owing to the fact that the standard expenditure was slightly in excess of the standard revenue. But this defect was more than remedied in the case of Bengal by the remission of the contributions to the Central Government, and the excess of standard expenditure over standard revenue in the case of Central Provinces was indeed very small. Barring this, in the rest of the Provinces the margin allowed was substantial. Let us now turn to the actual figures and compare them, with the standard figures. First of all, let us take the revenue side of the Provincial Budgets. Has the realized revenue fallen short of the standard revenue ? The following table compares the realized receipts of the Provinces with the standard figure assumed to be the normal in the financial allocation made under the new Act:—

Provincial Revenues[1]

Provinces	Standard Revenues	+ Increase over Standard : — Decrease from Standard.	
		For 1921-2	For 1922-3
	Rs.	Rs.	Rs.
Madras	14,98,02	60,57	40,41
Bombay	12,09,70	1,57,47	2,22,36
Bengal	8,55,28	31,25	60,58
U.P.	12,29,88	1,04,43	1,28,79
Punjab	9,73,51	1,00,15	1,64,75
Burma	8,24,28	1,75,05	1,76,29
Bihar and Orissa	4,30,39	15,76	32,26
C.P.	4,35,37	79,43	99,86
Assam	1,81,46	22,60	23,60

The above table brings out very clearly the fact, not readily admitted, namely that the realized revenue has in no case fallen short of the standard revenue. It may, however, be asked : Has the increase in the realized revenue been equal to the margin allowed under the allocation between the standard revenue and

[1] Exclusive of new taxation.

the standard expenditure of the Provinces ? As throwing some light on that aspect of the question the following table is interesting :—

EXPANSION OF PROVINCIAL REVENUES

Provinces	Standard Margin	Excess or Defect of Realized Margin over Standard Margin	
		For 1921-2	For 1922-3
Madras	90,82	—30,25	—50,41
Bombay	54,67	1,02,80	1,68,19
Bengal	—5,85	25,40	54,73
U.P.	1,23,32	—18,89	5,47
Punjab	62,82	37,33	1,01,93
Burma	39,50	1,35,55	1,36,79
Bihar and Orissa	9,69	6,07	22,57
C. P.	3,43	76,00	96,43
Assam	3,21	19,39	20,39

From these figures it is obvious that except in the case of Madras the realized margin has in no case fallen below the standard margin. The excess of the realized over the standard margin is enormous. It cannot, therefore, be said that the financial deficit in the Provinces is due to provincial revenue having failed to reach the assumed normal. On the other hand, the revenues were more than necessary to cover the normal expenditure of the Provinces. The only conclusion that can fairly be drawn from the facts of the case is that the provincial deficits are due to an extraordinary increase[1] in the expenditure of the Provinces. The following figures furnish enough evidence in support of this view:—

Provinces	Standard Expenditure	+ Increase over Standard : — Decrease from Standard.	
		For 1921-2	For 1922-3
Madras	14,07,20	3,08,73	3,11,35
Bombay	11,55,03	2,97,77	3,87,14
Bengal	8,61,13	2,49,47	1,75,77
U.P.	11,06,56	3,43,31	2,79,09
Punjab	9,10,69	3,12,55	3,57,75
Burma	7,81,78	2,42,73	4,05,92
Bihar and Orissa	4,20,70	65,27	93,10
C. P.	4,38,80	1,02,96	1,23,37
Assam	1,78,25	41,20	44,33

[1] For a brief review of this fact see the summary of it in the letter of the Government of India, *op. cit.*

We are, therefore, led to the view held by the Secretary of State that reduction of expenditure and increase of taxation is the only remedy for placing provincial finance on a sound footing. What chances are there that the Provinces will undertake the reduction of expenditure and increase of taxation so very necessary for their safety ? In this connection it is well to recall the dictum of that great financier, Mr. James Wilson, who once said :

> "Finance is not mere arithmetic; finance is a great policy. Without sound finance no sound government is possible : without sound government no sound finance is possible."

If there is any truth in this, then whether or not the Provincial Governments will undertake economy or face increase of taxation depends upon whether or not the system of government established in the Provinces by the Reforms Act is a sound system. Now, what is the nature of the government that is established in the Provinces under the Reforms Act ? In common parlance the system is known as dyarchy. Under it the Executive of the Province, instead of being composed of the Governor in Council as before, is now divided into the Governor in Council and the Governor in Ministry. Under it the subjects marked off as Provincial from the Central are further divided into "Reserved" and " Transferred" subjects. The former are in charge of the Governor in Council, and the latter in that of the Governor in Ministry. Of these parts of the Provincial Executive the Council in charge of the "reserved" subjects still remains as before irresponsible to the Provincial Legislature, is unremovable by it, and in that sense is a non-parliamentary executive. The other part of the Provincial Executive, namely the Ministry in charge of the "transferred" subjects, is recruited from the elected members of the Provincial Legislature, which is made responsible to the Provincial Legislature which is based on a more or less popular franchise, and is removable by it, and in that sense is a Parliamentary Executive.

The Provincial Legislature is supreme with regard to both the parts of the Provincial Executive. It has not only full powers of legislation, but has also full and unfettered powers of interpellation. Its powers of sanctioning and voting upon the Provincial Budget are complete, although provision is made in the Reforms Act,[1] which allows that

> "the Local Government shall have power in relation to any such demand (for a money grant) to act as if it had been assented to, notwithstanding the withholding of such assent or the reduction of the amount therein referred to (by the Provincial Legislature), if the demand relates to a reserved subject (which is assigned to the charge of the Governor in Council) and the Governor certified that the Expenditure provided for by the demand is essential to the discharge of his responsibility for the subject."

Can such a government tackle the problems of sound finance? It is obvious that of the two parts of this dyarchical Executive, one, i.e. the Governor in Council, need have very little anxiety for reduction of expenditure or for the increase of taxation. It derives its mandate from Parliament, and as such is free to adopt any policy—backed up as it is by the certification power of the Governor without any regard for the best interests of the taxpayer. The authors of the Joint Report had seen that this certifying power to override the wishes of the Legislature might lead to irresponsible extravagance on the part of the *Governor* in Council, and had proposed to endow the Governor in Ministry with a countervailing power which was to act as a curb on the former. That power was to have consisted in the Proviso which laid down that no taxation even in the interests of the "reserved" subjects should be imposed in any Province without the consent of the ministry.[2] The Extremists—a class of politicians in India who were bent upon minimizing the reforms as being inadequate—disliked the proviso as calculated to make scapegoats of ministers and to bring them into discredit with the people. But their rivals, the "Moderates," now calling themselves "Liberals"—one does not know why—saw clearly what the proviso meant. If this had materialized, there can be no doubt that the ministry would not have been a mere outsider tendering advice to the Council which might be accepted or rejected, but would have obtained a powerful voice in the settlement of the budget.

[1] Government of India Act, 1919, sect. II (2) (a).

[2] Joint Report, para. 256.

Having regard to the fact that no minister unless he was in a position to justify the budget proposals, including even those which pertained to the reserved subjects, would have hoped to persuade the Legislature to agree to a proposal of new taxation, the influence of the ministry on the "reserved" subjects, i.e. on the Council, would have inevitably been in the direction of thrift and retrenchment. The moderates were entirely right in their interpretation of the proviso and also in their insistence upon acquiring power, even at the cost of burdening the country with new taxation[1]. But in the heat of the controversy and their desire to convince the public of the substantiality of the Reforms, they drew some very amusing pictures of how the ministers working under the aegis of the proviso would be able to hold the Council at bay. This alarmed the bureaucracy, which raised the cry that it was dangerous to leave the provision for the "reserved" subjects to the tender mercy of ministers who bore no responsibility for the consequences of refusing adequate Budget provision for those subjects. The authors of the Joint Report[2] had realized the force of this argument, and had confessed that the success of the arrangements depended upon their being worked by reasonable men who would conduct themselves in a reasonable manner. They were probably right in refusing to assume that the ministers would not co-operate, either by reducing their own claims or by imposing taxation, in order to meet expenditure which the Council considered essential for the proper administration of the "reserved" subjects. But the bureaucracy, which had been frightened by the tactless jubilations of the Moderates, insisted that even reasonable men would at times, in all good faith, differ vitally from other reasonable men when it was a question of providing supply for work which one party was responsible for safeguarding and developing, while the other was only concerned in getting a share of the money. In its opinion circumstances could well be imagined in which reasonableness might not prevail. Let us suppose, it was argued, that the Governor in Council finds new and heavy expenditure imperative on some reserved subject, but that he cannot induce ministers to consent to accept less for their

[1] Vineberg, *Separation of State and Local Revenues in Canada,* p. 13, for an instance where military power was bought in Canada by volunteering to pay for the cost of it.

[2] Joint Report, para. 257.

subjects or impose taxation for it. The Governor then, under his exceptional powers, insists on the expenditure being provided for in the next budget, and the result is to leave ministers with inadequate funds for their transferred subjects. What is to happen ? Are ministers to be compelled to raise a tax which is apparently for their own need, but a need which has been created against their will by the Council refusing to curtail their demands ? Such a procedure, it was pointed out, would be tortuous, provocative, and indefensible. Again, let us suppose that ministers consented to raise the necessary money, but the legislature refused to pass their revenue measures. Are the ministers to resign as having lost its confidence? The bureaucracy placed another dilemma before the authors of the Joint Report. Ministers have raised a new tax for some purpose of their own. In the next budget the Governor finds himself compelled to add substantially to the reserved provision for some new necessity, and thus to curtail the provision for "transferred" subjects. Ministers virtually see their new taxation receipts going to finance some development for which they are not responsible, and of which indeed they may disapprove. What are they to do? To avoid these difficulties the proviso was dropped and in its place the following changes were made in the Devolution Rules :—

Taxation And Borrowing

30. All proposals for raising taxation or for the borrowing of money on the revenues of a Province shall in the case of a Governor's Province be considered by the Governor with his Executive Council and ministers sitting together, but the decision shall thereafter be arrived at by the Governor in Council, or by the Governor and Minister or Ministers, according as the proposal originates with the Governor in Council or the Governor and Ministers.

Allocation Of Revenues For The Administration Of Transferred Subjects

31. Expenditure for the purpose of the administration of both reserved and transferred subjects shall, in the first instance, be a charge on the general revenues and balances of each Province, and the framing of proposals for expenditure in regard

to transferred and reserved subjects will be a matter for agreement between that part of the government which is responsible for the administration of transferred subjects and that part of the government which is responsible for the administration of reserved subjects.

Procedure In Event Of Failure To Agree

32. (1) If at the time of the preparation of the budget the Governor is satisfied that there is no hope of agreement within a reasonable time between the members of his Executive Council on the one hand and Ministers on the other as to the apportionment of funds between reserved and transferred departments respectively, he may, by order in writing, allocate the revenue and balances of the Province between reserved and transferred subjects, by specifying the fractional proportions of the revenues and balances which shall be assigned to each class of subjects.

(2) An order of allocation under this rule may be made by the Governor either in accordance with his own discretion or in accordance with the report of an authority to be appointed by the Governor-General in this behalf on the application of the Governor.

Period Of Order Of Allocation

33. Every such order shall (unless it is sooner revoked) remain in force for a period to be specified in the order, which shall be not less than the duration of the then existing Legislative Council, and shall not exceed by more than one year the duration thereof:

Provided that the Governor may at any time, if his Executive Council and Ministers so desire, revoke an order of allocation or make such other allocation as has been agreed upon by them :

Provided, further, that if the order which it is proposed to revoke was passed in accordance with the report of an authority appointed by the Governor-General, the Governor shall obtain the consent of the Governor-General before revoking the same.

Condition Of Order Of Allocation

34. Every order of allocation made under these rules shall provide that, if any increase of revenue accrues during the period of the order on account of the imposition of fresh taxation that increase, unless the legislature otherwise directs, shall be allocated in aid of that part of the Government by which the taxation is initiated.

Preparation Of Budget In Default Of Agreement Of Order Of Allocation

35. If at the time of the preparation of any budget no agreement or allocation such as is contemplated by these rules has been arrived at, the budget shall be prepared on the basis of the aggregate grants respectively provided for the reserved and transferred subjects in the budget of the year about to expire.

Thus rather than depend too implicitly on reasonableness when circumstances must often be provocative effective precaution is taken by these rules against the ministry disapproving the allocation of funds to the "reserved" subjects by allowing the Governor to make such an allocation which is to be binding on both parts of the executive and also by arming him with the power of veto over the Provincial Legislature by allowing the Governor, should he deem it necessary, to restore a Budget grant on a reserved subject if it were refused or reduced by the Provincial Legislature which has the right to determine the Provincial Budget, and thirdly by allowing the Governor in Council equally with the Governor in Ministry to raise new taxation or new loans for the development of the subjects in its own charge. The result is that one part of this dyarchical Executive, namely the Governor in Council, can have little reason to be interested in economy or be over-weighed by considerations of taxation. Its supply being assured its concern in the stability of provincial finance must be deemed to be somewhat remote. The whole burden of meeting the problem of restoring sound finance, therefore, falls upon the Governor in Ministry in charge of the "transferred" subjects. For, under the distribution and certification powers it is the "transferred" subjects which must go without the funds they need, and it is those in charge of them, namely the Ministers, who must bear the brunt of economy or resort to new taxation to bring about an equilibrium in the finances of the Provinces. For it is doubtful that the Governor in Council will choose the onerous task of raising new taxes or practise economy when there are open to them other ways of amply providing themselves for the subjects they have under their control. Will the other half of the Government, namely the Governor in Ministry, consent to practise economy, or if need be undertake the burden of new taxation ? That obviously depends upon the temper of the Legislature.

At the outset it is to be noted that the Legislature will not readily favour projects of increased taxation. It is true, as Burke remarks,[1] that

> "To tell the people that they are relieved by the dilapidation of their public estate, is a cruel and insolent imposition. Statesmen, before they valued themselves on the relief given to the people by the destruction of their revenue, ought first to have carefully attended to the solution of the problem : Whether it be more advantageous to the people to pay considerably, and to gain in proportion ; or to gain little or nothing, and to be disburdened of all contribution ?"

Whatever may be the philosophers' answer to this question, there can be no doubt that in a poor country like India with a very low capacity for bearing the burden of taxation, it is always very unpleasant, if not cruel, to propose an augmentation of that burden. Besides, any proposals for extra taxation would be shunned as likely to prejudice the chances of the legislators at the polls. So long as nomination was the general mode of obtaining a seat in the Legislature it was unnecessary to mind the prejudices of the electors. But when a seat is in the gift of the elector a candidate to the Legislature who proposes to touch his pocket has a small chance of success, even though the new taxes are to result in more than proportionate benefit. Besides, a political party which has won power from a bureaucracy by accusing it of heavy taxation cannot easily consent to disgrace itself by continuing the same policy. This innate aversion to taxation on the part of the Legislature is strengthened by the peculiar attitude of the Legislature towards the "reserved" and " transferred" subjects. The reserved subjects are those which mostly pertain to peace and order, while the transferred subjects are those which largely pertain to progress. But as has already been pointed out, the policy of the bureaucracy before the Reforms was calculated to sacrifice progress to order. It is therefore obvious that under the revised constitution the popular Legislatures should aim at turning the scales in favour of subjects tending towards progress. Their aversion to increase of taxation and their partiality for the transferred subjects will favour them

[1] *Reflections on the Revolution in France.*

to welcome proposals on the part of ministers making drastic reduction in the funds allotted to the reserved subjects. Their attitude towards the ministers will be largely governed by the amount of economy they will be able to effect in the reserved subjects for the benefit of the transferred subjects. Thus in the absence of any very large chances of increase of revenue the two halves of the Executive, the Governor in Council backed by the distribution and certification power and the Governor in Ministry backed by the general Budget powers of a popular Legislature, will compete in the matter of developing their subjects by forcing economy on each other. The Legislature being unwilling to tax, the Governor in Council being in a position to resist retrenchment and the Governor in Ministry anxious to expand, the chances of an early equilibrium in Provincial finance are very small.

It is, therefore, evident that if there is no sound finance in the Provinces it is because dyarchy is not a good form of government. Now, why is dyarchy not a good form of government ? The answer to this question is very simple. Dyarchy is a bad form of government because it is opposed to the principle of collective responsibility. An administrative machine must work smoothly and harmoniously. But in order that it may do so it must recognize the principle of impartibility of governmental work and a collective responsibility of the administrators in the execution thereof. That the work of government is by its nature impartible may not seem to accord with facts : for, in practice the functions of government can be and commonly are partitioned, as they are between local bodies and between departments. Nevertheless it is true that a common thread runs through them all: that no function of government acts *in vacuo* ; that each reacts on some other function, and that the various functions cannot act at all to produce orderly progress unless there is some force to harmonize them. Otherwise a policy enunciated in one department may fail to fructify for want of helpful action on behalf of other departments. That harmonizing force can only be found in the principle of collective responsibility. This is so because under it, as Hearn points out:[1]

> "Each minister acts in his own department as the recognized agent of his colleagues in that particular

[1] *The Government of England,* p. 204

department, subject, however, to inquiry and control by the whole body. But in all cases on which any difficulty is likely to arise each minister, from motives not merely of prudence but of honour, takes the opinion of the Cabinet. When the precaution is taken the measure becomes the common act of the Ministry."

Right or wrong there is a common co-ordinated policy which guides a unified government based on collective responsibility. But having made a partition of governmental work, dyarchy must be said to have introduced an element of divided responsibility in the Executive. It is true that the partition is not horizontal but vertical. It is also true that in setting the two parts to work it has not been provided that there should be two separate Legislatures for two separate executives ; or that each should make its own laws, control its own finance, frame its own budget, impose its own taxation, and raise its own loans ; or that each should have its separate staff for the administration of subjects allotted to it and have its own methods of recruitment, pay and pension for its services ; so that the two authorities might in fact have clearly defined spheres of their own exclusively within them. The Government of India had indeed suggested that some, if not all, of these concomitants of a typically dual executive should also be made a part of the dyarchical system adopted to carry on the government of the Provinces. Fortunately for the country the framers of the new constitution held[1]

"that wisdom lies not in equipping each of the different elements with a complete paraphernalia of its own, and trusting to their orbits lying sufficiently apart for collision to be avoided; but in taking every opportunity of bringing the two elements into contact sc as to induce the habits of joint action." "It is our intention," wrote the authors of the Joint Report,[2] "that the Government thus composed and with this distinction of functions shall discharge them as one Government," and that "the Provincial budget should be framed by the Executive Government as a whole."[3]

It was no doubt well to have modified the working of dyarchy by subjecting it to the interplay of two principles, one of division in order to give as clear a definition as possible of the several

[1] Joint Report, p. 199. [2] *Ibid,* p. 180. [3] *Ibid,* p. 207.

responsibilities of the two parts of the government and of union, in order to get association in aims and policy between those parts. For to have equipped each part of the Executive with a separate paraphernalia would have been nothing short of a calamity. But because there is an understanding that when ministers will act in matters of transferred subjects the councillors will advise them, and that when councillors will act in matters of reserved subjects the ministers will advise them, it does not alter the fact that dyarchy is a system of divided responsibility. It is not a system which ensures the work of government being conducted in harmony and in accordance with a common policy. On the other hand, it is a system fraught with organized quarrel. The dividing line between dyarchy and anarchy is very narrow. If such a system is not rent in practice it is because of two transient circumstances. One such circumstance consists in the Provincial Legislature being a weakling sapped of its vitality by political dissensions. The other consists in the tenure of the Ministers not being at the will of the Legislature, but for the duration of the Legislature's existence, and are to hold office during the pleasure of the governor. To allow a governor to choose ministers from among the elected members of the Legislature instead of requiring him to accept ministers who are elected by the Legislature is a grave derogation from the principle of responsible government which was avowedly the object of the Reforms Act. A minister who has the confidence of the governor, and a minister who has the confidence of the Legislature, are two entirely different things. How great is the difference between the two in so far as good government is concerned is writ large in the pages of English political history of the eighteenth and the nineteenth centuries. That such a system should have been adopted against which the whole English constitutional history is a grand protest cannot of course be without some reason. The ostensible reason advanced[1] is that the Legislature

> "had had no experience of the power of dismissing Ministers, or the results attending the exercise of such power. Nobody in India is yet familiar with the obligations imposed by tenure of office at the will of a representative assembly. It is only by actual experience that these lessons can be

[1] Joint Report, p. 181.

> learned .... By the device of appointing the ministers from the elected members of the (Legislature) and making their tenure of office conditional on the retention of their seats (there is) established at once some measure of responsibility, in the form of responsibility to their constituents and thus (is) put an end to the condition of affairs in which those entrusted with the administration are wholly irresponsible to the constituents who elect the (Legislature)."

It is difficult to believe in the cogency of this piece of reasoning. To argue that nothing can be learned without experience is simply absurd. What is necessary for a proper conduct on the part of an individual or a group is to understand the meanings and values of things. For that it is unnecessary to undergo actual trial. A Legislature composed of responsible persons may be trusted to know the consequences of dismissing a Minister at the start without having to wait to learn it by experience. Again, to argue that the system is not the less responsible because ministers are responsible to their constituents is a shallow piece of pedantry. It was no doubt argued by Austin, in connection with the English Constitution, that the House of Commons was " merely trustee for the body by which they are elected and appointed." It is true that in a political sense the electors are the most important part of, we may even say, are actually, the Sovereign power, since their will is under every representative system of government sure to obtain ultimate obedience. But as Prof. Dicey points out,[2]

> "any expressions which attribute to Parliamentary electors a legal part in the process of law-making are quite inconsistent with the view taken by the law of the position of an elector The sole legal right of electors under the English constitution (and the same is true under the Indian constitution) is to elect members of Parliament. Electors have no legal means of initiating, of sanctioning, or of repealing the legislation of parliament. No court will consider for a moment the argument that a law is invalid as being opposed to the opinion of the electorate":

and this exactly defines the status of the Indian electors. To make the minister responsible to such a nonentity is to make him

[1] *Jurisprudence,* Vol. I, 4th Ed., p. 253.

[2] *Law of the Constitution,* 8th Ed., 1915, p. 57.

virtually irresponsible. That the framers of the constitution were not alive to these considerations in suggesting this particular mode of appointing Ministers it is hard to believe. What is more probable is that this particular mode of appointing ministers was adopted because it permitted to select a man who was more likely to co-operate with those in charge of the reserved subjects and who being irremovable by the Legislature would be less swayed by its wishes. But the Ministers cannot remain altogether immune from the axe of the Legislature. The dangers of the position of a minister who has cultivated friendship with the councillor and has failed to ingratiate himself into the favour of the Legislature, cannot fail to come home to him on budget occasions. The proposals of the minister as embodied in the budget will be liable to be reversed by a vote of the majority of the Legislature, but neither he himself nor the governor will be able to intervene. The minister's only remedy will be to resign.

Anyhow these circumstances which have, so to say, saved dyarchy from failure are only transitory. The political dissensions may be no more than a passing phase, and the ministers from the second term of the reformed Legislature will become amenable to it: so that before long the forces may be organized better than they are, when dyarchy is sure to fail.

Hybrid executives, divided responsibility, division of functions, reservation of powers, cannot make for a good system of government, and where there is no good system of government there can be little hope for a sound system of finance. The primary solution is that there should be an undivided government with a collective responsibility. That, however, can be achieved only when the whole of government derives its mandate from a common source. That such a consummation should take place as early as possible is devoutly to be wished. In that behalf it is encouraging to know that dyarchy is but a transitional system. The only question is how long and protracted will the period of transition be. The justification for introducing a dyarchical form of government rests on the supposition that India is at present ill-prepared to sustain a system of responsible government in . anything like completeness, for owing to the lack of education and political experience, the Indian electorate will for some time be unable either to formulate their requirements intelligently or effectively impose a mandate upon their representatives, and that owing to the inveterate social prejudices of the educated classes there is a great danger of their abusing the political power to exploit the masses. This cardinal fact, it was held, must differentiate the degree and the kind of responsibility which can be introduced at the outset from that which will be the eventual resultant of the new system, and must impose the obligation of ensuring that the forces which now hold the people together are not completely withdrawn before satisfactory substitutes are ready to take their place. On the other hand, it has been urged[1] that there is no necessity to wait till the cardinal fact disappears ; for

> "in all countries responsibility in the beginning has been entrusted to a very small section of the people, and government has been in the hands of a small educated minority, who have naturally cared for the interests of the uneducated masses pending the spread of education and the consequent extension of the franchise."

This is of course a familiar line of argument which is usually put forth in India by the political radicals and social tories. If we put aside the painful story of the harsh, cruel and inhuman treatment which the classes in India have accorded to the masses, truth is on their side, for in every country there have been downtrodden communities suffering from social oppression and social injustice, and yet no country has had to be without political power on that account. But those who use this argument forget that if other countries like America with her Negroes and Japan with her Hitas are in possession of political power without having first destroyed social inequality, it is due to the fact of their having been in possession of military power. Military force and moral force are the two chief means to political freedom, and a country which cannot generate the former must cultivate the latter. Thus in India the political problem is entirely a social problem, and a postponement of its solution virtually postpones the day when India can have a free government subject to the mandate of none but her own people.

●●●

[1] Cf. the evidence of the Hon. V. J. Patel and Mr. Madhava Rao before the Joint Select Committee on the Government of India Bill. House of Commons Return 203 of 1919, p. 106.

INDEX

THE ECONOMIC JOURNAL THE JOURNAL OF THE ROYAL ECONOMIC SOCIETY

Edited By : J. M. KEYNES AND D. H. MACGREGOR

VOLUME XXXVI

London, MACMILLAN AND CO., Limited,
New York, The macmillan Company,
1926

REVIEW : Page 111

The Evolution of Provincial Finance in British India by B.R. Ambedkar (London : P.S. King & Sons. pp. xxi plus 285, 15 s)

Of this group only two pretend to add anything new to our knowledge of India, the rest are rather text-books for Indian students. Mr. Ambedkar has the facility of making forbidding subjects attractive and has produced a very readable book. Provincial finance in India has so far been almost entirely neglected by writers on finance and little or nothing has been published apart from Government Blue Books and memoranda. The Evolution of Provincial Finance in British India is a useful introduction written rather from the historical point of view. It does not pretend to be exhaustive and is essentially a piece of pioneer work. There are four parts. Part I traces the history from 1833 up to 1873, when a new regime was begun. Centralisation having proved a failure, the opponents of the system wished " to make the Local Governments partners in the great joint stock of Indian Finances...... instead of keeping them on the footing of agents and servants," thus anticipating the present reforms. Opposition, however, was too strong, and as usual the solution was a compromise, details of which are given in Part II. Various methods are described, such as "Budget by Assignments", "Budget by Assigned Revenues," and "Budget by Shared Revenue." None succeeded in giving the desired results. Part III is analytical, and is an attempt to that, whatever the financial relationship between the Provincial and Central Governments, the former were never in law or fact independent but were closely regulated. It is an interesting piece of work, but does not appear to be so fundamentally important as the author seems to think. Part IV is devoted to finance since the introduction of the new reforms. The treatment here is not so good, probably because the space allotted to it is too small and the subject very complex. The conclusion drawn is that good finance cannot be expected under the present dyarchical system of government. Certainly it will be difficult.

The author is to be congratulated upon the impartial way in which he has discussed an eminently controversial subject.

W. S. THATCHER

Book 3

BLANK

THE PROBLEM OF THE RUPEE

ITS ORIGIN AND ITS SOLUTION

B. R. AMBEDKAR

Sometime Professor of Political Economy at the Sydenham College of Commerce and Economics, Bombay.

LONDON

P. S. KING & SON, LTD.

ORCHARD HOUSE, 2 & 4 GREAT SMITH STREET

WESTMINSTER

1923

Facsimile of the title page and its reverse

DEDICATED
TO THE MEMORY OF
MY
FATHER AND MOTHER
AS A TOKEN OF MY ABIDING GRATITUDE FOR THE SACRIFICES THEY MADE AND THE ENLIGHTENMENT THEY SHOWED IN THE MATTER OF MY EDUCATION.

Printed in Great Britain by Butler & Tanner Ltd., *Frame and London*

HISTORY OF INDIAN CURRENCY & BANKING

BLANK

HISTORY OF INDIAN CURRENCY & BANKING

By

B. R. Ambedkar

Sometime Professor of Political Economy at the Sydenham College of Commerce and Economics, Bombay.

[Reprint of the edition of 1947]

DEDICATED

TO THE MEMORY OF

MY

FATHER AND MOTHER

AS A TOKEN OF MY ABIDING GRATITUDE FOR THE SACRIFICES THEY MADE AND THE ENLIGHTENMENT THEY SHOWED IN THE MATTER OF MY EDUCATION.

PREFACE TO THE SECOND IMPRESSION

THE PROBLEM OF THE RUPEE was first published in 1923. Ever since its publication it has had a great demand : so great that within a year or two the book went out of print. The demand for the book has continued, but unfortunately I could not bring out a second edition of the book for the reason that my changeover from economics to law and politics left me no time to undertake such a task. I have, therefore, devised another plan : it is to bring out an up-to-date edition of the History of Indian Currency and Banking in two volumes, of which *The Problem of the Rupee* forms volume one. Volume two will contain the History of Indian Currency and Banking from 1923 onwards. What is therefore issued to the public now is a mere reprint of *The Problem of the Rupee* under a different name. I am glad to say that some of my friends who are engaged in the field of teaching economics have assured me that nothing has been said or written since 1923 in the field of Indian Currency which calls for any alteration in the text of *The Problem of the Rupee* as it stood in 1923. I hope this reprint will satisfy the public partially if not wholly. I can give them an assurance that they will not have to wait long for volume two. I am determined to bring it out with the least possible delay.

B. R. AMBEDKAR

Rajagraha,
Bombay,
7-5-1947.

BLANK

CONTENTS

BLANK

PREFACE TO THE FIRST EDITION

In the following pages I have attempted an exposition of the events leading to the establishment of the exchange standard and an examination of its theoretical basis.

In endeavouring to treat the historical side of the matter, I have carefully avoided repeating what has already been said by others. For instance, in treating of the actual working of the exchange standard, I have contented myself with a general treatment just sufficiently detailed to enable the reader to follow the criticism I have offered. If more details are desired they are given in all their amplitude in other treatises. To have reproduced them would have been a work of supererogation ; besides it would have only obscured the general trend of my argument. But in other respects, I have been obliged to take a wider historical sweep than has been done by other writers. The existing treatises on Indian currency do not give any idea, at least an adequate idea, of the circumstances which led to the reforms of 1893. I think that a treatment of the early history is quite essential to furnish the reader with a perspective in order to enable him to judge for himself the issues involved in the currency crisis and also of the solutions offered. In view of this, I have gone into that most neglected period of Indian currency extending from 1800 to 1893. Not only have other writers begun abruptly the story of the exchange standard, but they have popularized the notion that the exchange standard is the standard originally contemplated by the Government of India. I find that this is a gross error. Indeed, the most interesting point about Indian currency is the way in which the gold standard came to be transformed into a gold exchange standard. Some old, but by now forgotten, facts had therefore, to be recounted to expose this error.

On the theoretical side, there is no book but that of Professor Keynes which makes any attempt to examine its scientific basis.

But the conclusions he has arrived at are in sharp conflict with those of mine. Our differences extended to almost every proposition he has advanced in favour of the exchange standard. This difference proceeds from the fundamental fact, which seems to be quite overlooked by Professor Keynes, that nothing will stabilize the rupee unless we stabilize its general purchasing power. That the exchange standard does not do. That standard concerns itself only with symptoms and does not go to the disease : indeed, on my showing, if anything, it aggravates the disease.

When I come to the remedy, I again find myself in conflict with the majority of those who like myself are opposed to the exchange standard. It is said that the best way to stabilize the rupee is to provide for effective convertibility into gold. I do not deny that this is one way of doing it. But, I think, a far better way would be to have an inconvertible rupee with a fixed limit of issue. Indeed, if I had any say in the matter, I would propose that the Government of India should melt the rupees, sell them as bullion and use the proceeds for revenue purposes and fill the void by an inconvertible paper. But that may be too radical a proposal, and I do not therefore press for it, although I regard it as essentially sound. In any case, the vital point is to close the Mints, not merely to the public, as they have been, but to the Government as well. Once that is done, I venture to say that the Indian currency, based on gold as legal tender with a rupee currency fixed in issue, will conform to the principles embodied in the English currency system.

It will be noticed that I do not propose to go back to the recommendations of the Fowler Committee. All those, who have regretted the transformation of the Indian currency from a gold standard to a gold exchange standard, have held that everything would have been all right if the Government had carried out *in toto* the recommendations of that Committee. I do not share that view. On the other hand, I find that the Indian currency underwent that transformation *because* the Government carried out those recommendations. While some people regard that Report as classical for its wisdom, I regard it as classical for its nonsense. For I find that it was this Committee which, while recommending a gold standard, also recommended and thereby perpetuated the folly of the Herschell Committee, that Government should coin rupees on its own account according to that most naive of currency principles, the requirements of the public, without realizing that the latter recommendation was destructive of the former. Indeed, as I argue, the principles of the Fowler Committee must be given up, if we are to place the Indian currency on a stable basis.

I am conscious of the somewhat lengthy discussions on currency principles into which I have entered in treating the subject. My justification of this procedure is two-fold. First of all, as I have differed so widely from other writers on Indian currency, I have deemed it necessary to substantiate my view-point, even at the cost of being charged with over-elaboration. But it is my second justification, which affords me a greater excuse. It consists in the fact that I have written primarily for the benefit of the Indian public, and as their grasp of currency principles does not seem to be as good as one would wish it to be, an over-statement, it will be agreed, is better than an understatement of the argument on which I have based my conclusions.

Up to 1913, the Gold Exchange Standard was not the avowed goal of the Government of India in the matter of Indian Currency, and although the Chamberlain Commission appointed in that year had reported in favour of its continuance, the Government of India had promised not to carry its recommendations into practice till the war was over and an opportunity had been given to the public to criticize them. When, however, the Exchange Standard was shaken to its foundations during the late war, the Government of India went back on its word and restricted, notwithstanding repeated protests, the terms of reference to the Smith Committee to recommending such measures as were calculated to ensure the stability of the Exchange Standard, as though that standard had been accepted as the last word in the matter of Indian Currency. Now that the measures of the Smith Committee have not ensured the stability of the Exchange Standard, it is given to understand that the Government, as well as the public, desire to place the Indian Currency System on a sounder footing. My object in publishing this study at this juncture is to suggest a basis for the consummation of this purpose.

I cannot conclude this preface without acknowledging my deep sense of gratitude to my teacher, Prof. Edwin Cannan, of the University of London (School of Economics). His sympathy towards me and his keen interest in my undertaking have placed me under obligations which I can never repay. I feel happy to be able to say that this work has undergone close supervision at his hands, and although he is in no way responsible for the views I have expressed. I can say that his severe examination of my theoretic discussions has saved me from many an error. To Professor Wadia, of Wilson College, I am thankful for cheerfully undertaking the dry task of correcting the proofs.

FOREWORD

By Professor Edwin Cannan

I am glad that Mr. Ambedkar has given me the opportunity of saying a few words about his book.

As he is aware, I disagree with a good deal of his criticism. In 1893, I was one of the few economists, who believed that the rupee could be kept at a fixed ratio with gold by the method then proposed, and I did not fall away from the faith when some years elapsed without the desired fruit appearing (see *Economic Review,* July 1898, pp. 400—403). I do not share Mr. Ambedkar's hostility to the system, nor accept most of his arguments against it and its advocates. But he hits some nails very squarely on the head, and even when I have thought him quite wrong, I have found a stimulating freshness in his views and reasons. An old teacher like myself learns to tolerate the vagaries of originality, even when they resist "severe examination" such as that of which Mr. Ambedkar speaks.

In his practical conclusion, I am inclined to think, he is right. The single advantage, offered to a country by the adoption of the gold-exchange system instead of the simple gold standard, is that it is cheaper, in the sense of requiring a little less value in the shape of metallic currency than the gold standard. But all that can be saved in this way is a trifling amount, almost infinitesimal, beside the advantage of having a currency more difficult for administrators and legislators to tamper with. The recent experience both of belligerents and neutrals certainly shows that the simple gold standard, as we understood it before the war, is not fool-proof, but it is far nearer being fool-proof and knave-proof than the gold-exchange standard. 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 to suit some corrupt purpose is very considerably greater than the possibility of the simple gold standard being so perverted.

The plan for the adoption of which Mr. Ambedkar pleads, namely that all further enlargement of the rupee issue should be permanently prohibited, and that the mints should be open at a fixed price to importers or other sellers of gold, so that in course of time India would have, in addition to the fixed stock of rupees, a currency of meltable and exportable gold coins, follows European precedents. In eighteenth-century England the gold standard introduced itself because the legislature allowed the ratio to remain unfavourable to the coinage of silver: in nineteenth-century France and other countries it came in because the legislatures definitely closed the mints to silver, when the ratio was favourable to the coinage of silver. The continuance of a mass of full legal tender silver coins beside the gold would be nothing novel in principle, as the same thing, though on a somewhat smaller scale, took place in France, Germany, and the United States.

It is alleged sometimes that India does not want gold coins. I feel considerable difficulty in believing that gold coins of suitable size would not be convenient in a country with the climate and other circumstances of India. The allegation is suspiciously like the old allegation that the " Englishman prefers gold coins to paper," which had no other foundation than the fact that the law prohibited the issue of notes for less than £ 5 in England and Wales, while in Scotland, Ireland, and almost all other English-speaking countries, notes for £ 1 or less were allowed and circulated freely. It seems much more likely that silver owes its position in India to the decision, which the Company made before the system of standard gold and token silver was accidentally evolved in 1816 in England, and long before it was understood, and that the position has been maintained, not because Indians dislike gold, but because

Europeans like it so well that they cannot bear to part with any of it.

This reluctance to allow gold to go to the East is not only despicable from an ethical point of view. It is also contrary to the economic interest not only of the world at large, but even of the countries, which had a gold standard before the war and have it still or expect soon to restore it. In the immediate future, gold is not a commodity, the use of which it is desirable for these countries either to restrict or to economize. 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 accumulation of hoards by 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 would otherwise have been, though it was serious enough. Since the war, the Federal Reserve Board, supported by all Americans who do not wish to see a rise of prices, has taken on the new "White Man's Burden" of absorbing the products of the gold mines, but just as the United States failed to keep up the value of silver by purchasing it, so she will eventually fail to keep up the value of gold. In spite of the opinion of some high authorities, it is not at all likely that a renewed demand for gold reserves by the central banks of Europe will come to her assistance. Experience must gradually be teaching even the densest of financiers that the value of paper currencies is not kept up by stories of "cover" or "backing" locked up in cellars, but by due limitation of the supply of the paper. With proper limitation, enforced by absolute convertibility into gold coin which may be freely melted or exported, it has been proved by theory and experience that small holdings of gold are perfectly sufficient to meet all internal and international demands. There is really more chance of a great demand from individuals than from the banks. It is conceivable that the people of some of the countries, which have reduced their paper currency to a laughing stock, may refuse all paper and insist on having gold coins. But it seems more probable that they will be pleased enough to get better paper than they have recently been accustomed to, and will not ask for hard coin with sufficient insistence to get it. On the whole, it seems fairly certain that the demand of Europe and European-colonized lands for gold will be less rather than greater than before the war, and that it will increase very slowly or not at all.

Thus, on the whole, there is reason to fear a fall in the value of gold and a rise of general prices rather than the contrary.

One obvious remedy would be to restrict the production of gold by international agreement, thus conserving the world's resources in mineral for future generations. Another is to set up an international commission to issue an international paper currency so regulated in amount as to preserve an approximately stable value. Excellent suggestions for the professor's classroom, but not, at present at any rate nor probably for some considerable period of time, practical politics.

A much more practical way out of the difficulty is to be found in the introduction of gold currency into the East. If the East will take a large part of the production of gold in the coming years, it will tide us over the period which must elapse before the most prolific of the existing sources are worked out. After that we may be able to carry on without change or we may have reached the possibility of some better arrangement.

This argument will not appeal to those who can think of nothing but the extra profits which can be acquired during a rise of prices, but I hope it will to those who have some feeling for the great majority of the population, who suffer from these extra and wholly unearned profits being extracted from them. Stability is best in the long run for the community.

EDWIN CANNAN

CHAPTER I

FROM A DOUBLE STANDARD TO A SILVER STANDARD

Trade is an important apparatus in a society, based on private property and pursuit of individual gain ; without it, it would be difficult for its members to distribute the specialized products of their labour. Surely a lottery or an administrative device would be incompatible with its nature. Indeed, if it is to preserve its character, the only mode for the necessary distribution of the products of separate industry is that of private trading. But a trading society is unavoidably a pecuniary society, a society which of necessity carries on its transactions in terms of money. In fact, the distribution is not primarily an exchange of products against products, but products against money. In such a society, money therefore necessarily becomes the pivot on which everything revolves. With money as the focusing-point of all human efforts, interests, desires and ambitions, a trading society is bound to function in a regime of price, where successes and failures are results of nice calculations of price-outlay as against price-product.

Economists have no doubt insisted that "there cannot... be intrinsically a more significant thing than money," which at best is only "a great wheel by means of which every individual in society has his subsistence, conveniences and amusements regularly distributed to him in their proper proportions." Whether or not money values are the definitive terms of economic endeavour may well be open to discussion.* But this much is certain, that without the use of money this "distribution of subsistence, conveniences and amusements," far from being a matter of course, will be distressigly hampered, if not altogether suspended. How can this trading of products take place without

* Cf. W. C. Mitchell. "The Rationality of Economic Activity," *Journal of Political Economy,* 1910, Vol. XVIII, pp. 97 and 197; also "The Role of Money in Economic Theory," by the same, in the *American Economic Review* (Supplement), Vo. VI, No. 1, March 1916.

money ? The difficulties of barter have ever formed an unfailing theme with all economists, including those who have insisted that money is only a cloak. Money is not only necessary to facilitate trade by obviating the difficulties of barter, but is also necessary to sustain production by permitting specialization. For, who would care to specizlize if he could not trade his products for those of others which he wanted ? Trade is the handmaid of production, and where the former cannot flourish the latter must languish. It is therefore evident that if a trading society is not to be out of gear and is not to forego the measureless advantages of its automatic adjustments in the great give-and-take of specialized industry, it must provide itself with a sound system of money.*

At the close of the Moghul Empire, India, judged by the standards of the time, was economically an advanced country. Her trade was large, her banking institutions were well developed, and credit played an appreciable part in her transactions. But a medium of exchange and a common standard of value were among others the most supreme desiderata in the economy of the Indian people when they came, in the middle of the eighteenth century, under the sway of the British. Before the occurrence of this event, the money of India consisted of both gold and silver. Under the Hindu emperors the emphasis was laid on gold, while under the Mussalmans silver formed a large part of the circulating medium.† Since the time of Akbar, the founder of the economic system of the Moghul Empire in India, the units of currency had been the gold *mohur* and the silver *rupee*. Both coins, the mohur and the rupee, were identical in weight, i.e., 175 grs. troy‡ and were "supposed to have been coined without any alloy, or at least intended to be so."§ But whether they constituted a single standard of value or not is a matter of some doubt. It is believed that the mohur and the rupee, which at the time were the common measure

* For the whole of this discussion, cf. H. J. Davenport, *The Economics of Enterprise* (1913), Chapters II and III.

† Princep, J., *Useful Tables,* Calcutta, 1834, pp. 15-16.

‡ Robert Chalmers, *History of Colonial Currency,* 1893, pp. 336, 340.

§ Dr. P. Kelly *The Universal Cambist,* 1811, p. 115.

of value, circulated without any fixed ratio of exchange between them. The standard, therefore, was more of the nature of what Jevons called a parallel standard* than a double standard† That this want of ratio could not have worked without some detriment in practice is obvious. But it must be noted that there existed an alleviating circumstance in the curious contrivance by which the mohur and the rupee, though unrelated to each other, bore a fixed ratio to the *dam,* the copper coin of the Empire.‡ So that it is permissible to hold that, as a consequence of being fixed to the same thing, the two, the mohur and the rupee, circulated at a fixed ratio.

In Southern India, to which part the influence of the Moghuls had not extended, silver as a part of the currency system was quite unknown. The pagoda, the gold coin of the ancient Hindu kings, was the standard of value and also the medium of exchange, and continued to be so till the time of the East India Company.

The right of coinage, which the Moghuls always held as *Inter jura Majestatis,* § be it said to their credit, was exercised with due sense of responsibility. Never did the Moghul Emperors stoop to debase their coinage. Making allowance for the imperfect technology of coinage, the coins issued from the various Mints, situated even in the most distant parts of their Empire¶, did not materially deviate from the standard. The table

* *Money and Mechanism of Exchange* (1890), p. 95.

† Dr. P. Kelly's view is that they circulated at their market ratio (*loc. cit.*). On the other hand, Sir R. Temple says : "In ancient and mediaeval India the relative value of the coins of each metal was fixed by the State, and all were legal tender virtually without any formal limitation" ("General Monetary Practice in India," *Journal of the Institute of Bankers,* Vol. II, p. 406). On another occasion he said :" The earliest Hindu currency was in gold with a single standard. The Mohammendans introduced silver, and in later times up to British rule there was a double standard, gold and silver" (*ibid.,* Vol. XV, p. 9). In contrast to this it may be noted that the Preamble to Currency Regulations XXXV of 1793 and other Currency Regulations of early date make it a point to emphasize that under pre-British regime there was no fixed ratio between the mohur and the rupee.

‡ Cf. Prof. S. V. Venkateswara, on "Moghul Currency and Coinage" in the *Indian Journal of Economics,* July, 1918, p. 169; and F. Atkinson, *The Indian Currency Question* (1894), p. 1.

§ According to the Mohammedan historian, Khafi Khan, it enraged the Emperor Aurangzeb when the East India Company in 1694 coined some rupees at Bombay "with the name of their impure king" (*Imperial Gazetteer of India,* Vol. IV, p. 515).

¶ It is stated in the *Imperial Gazetteer of India* (Vol. IV., p. 514), that in the early days of the Moghul rule, there was only one Mint—at Delhi—which struck the Imperial coins. The Emperor Sher Sha was the first to introduce a plurality of Mints for coniage purposes—a practice continued and extended by the later emperors until between the reigns of Akbar and Bahadur Shah II the Mints numbered about 200. From the *East India Moral and Material Progress Report* for 1872-73 it is clear that not every Mint was open to the coinage of all three metals, gold, silver and copper; but that some Mints coined only gold, others silver, and the rest copper; (see Report, pp. 11-12).

below of the assays of the Moghul rupees shows how the coinage throughout the period of the Empire adhered to the standard weight of 175 grs. pure.*

Name of the Rupee	Weight in pure Grs.	Name of the Rupee	Weight in pure Grs.
Akbari of Lahore	175.0	Delhi Sonat	175.0
Akbari of Agra	174.0	Delhi Alamgir	175.0
Jehangiri of Agra	174.6	Old Surat	174.0
Jehangiri of Allahabad	173.6	Murshedabad	175.9
Jehangiri of Kandhar	173.9	Persian Rupee of 1745	174.5
Shehajehani of Agra	175.0	Old Dacca	173.3
Shehajehani of Ahmedabad	174.2	Muhamadshai	170.0
Shehajehani of Delhi	174.2	Ahmadshai	172.8
Shehajehani of Delhi	175.0	Shaha Alam (1772)	175.8
Shehajehani of Lahore	174.0		

So long as the Empire retained unabated sway, there was advantage rather than danger in the plurality of Mints, for they were so many branches of a single department governed by a single authority. But with the disruption of the Moghul Empire into separate kingdoms these branches of the Imperial Mint located at different centres became independent factories for purposes of coinage. In the general scramble for independence which followed the fall of the Empire, the right to coinage, as one of the most unmistakable insignia of sovereignty, became the right most cherished by the political adventurers of the time. It was also the last privilege to which the falling dynasties clung, and was also the first to which the adventurers rising to power aspired. The result was that the right, which was at one time so religiously exercised, came to be most wantonly abused. Everywhere the Mints were kept in full swing, and soon the country was filled with diverse coins which, while they proclaimed the incessant rise and fall of dynasties, also presented bewildering media of exchange. If these money-mongering sovereigns had kept up their issues to the original standard of the Moghul Emperors, the multiplicity of coins of the same denomination would not have been a matter of much concern. But they seemed to have held that as the money used by their subjects was made by them, they could do what they liked with their own, and proceeded to debase their coinage to the extent

* Prinsep, J., op. cit., p. 18.

each chose without altering the denominations. Given the different degrees of debasement, the currency necessarily lost its primary quality of general and ready accceptability.

The evils consequent upon such a situation may well be imagined. When the contents of the coins belied the value indicated by their denomination they became mere merchandise, and there was no more a currency by tale to act as a ready means of exchange. The bullion value of each coin had to be ascertained before it could be accepted as a final discharge of obligations.* The opportunity for defrauding the poor and the ignorant thus provided could not have been less† than that known to have obtained in England before the great re-coinage of 1696. This constant weighing, valuing, and assaying the bullion contents of coins was, however, only one aspect in which the evils of the situation made themselves felt. They also presented another formidable aspect. With the vanishing of the Empire there ceased to be such a thing as an Imperial legal tender current all through India. In its place there grew up local tenders current only within the different principalities into which the Empire was broken up. Under such circumstances exchange was not liquidated by obtaining in return for wares the requisite bullion value from the coins tendered in payment. Traders had to be certain that the coins were also legal tender of their domicile. The Preamble to the Bengal Currency Regulation XXXV, of 1793, is illuminating on this point. It says :—

> "The principal districts in Bengal, Behar and Orissa, have each a distinct silver currency .... which are the standard measure of value in all transactions in the districts in which they respectively circulate.

* * * * *

* It was this necessity for ascertaining the true bullion value of the debased coins which gave rise to that class of money-changers known as Shroffs, who specialized in the business of evaluating the coins at their proper discount from the standard purity by means of the dates and other characteristics engraved upon them.

† It is stated that Dr. Roxburgh, who was an eye-witness, was so much impressed by the sufferings of the poor owing to the bad state of the currency that he urged upon A. Dalrymple, in a letter dated June 30, 1791, to give prominence to the evils by inserting a paper in his *Oriental Repertory* (2 vols., London, 1808), "on the current coin in circulation over the Company's Territories which might be productive of the most solid and lasting advantage to the Governing and the Governed," and added, " You may be able to correct the evil, by which you will certainly go to heaven, if the prayers of the poor avail, and I may get a step nearer paradise." *Observations on the Copper Coinage wanted in the Circars,* by A. Dalrymple, London, 1794, p. 1.

"In consequence of the Ryots being required to pay their rent in a particular sort of rupee they of course demanded it from manufacturers in payment of their grain, or raw materials, whilst the manufacturers, actuated by similar principles with the Ryots, required the same species of rupee from the traders who came to purchase their cloth or their commodities.

"The various sorts of old rupees, accordingly, soon became the established currency of particular districts, and as a necessary consequence the value of each rupee was enhanced in the district in which it was current, for being in demand for all transactions. As a further consequence, every sort of rupee brought into the district was rejected from being a different measure of value from that by which the inhabitants had become accustomed to estimate their property, or, if it was received, a discount was exacted upon it, equal to what the receiver would have been obliged to pay upon exchanging it at the house of a shroff for the rupee current in the district, or to allow discount upon passing it in payment to any other individual.

* * * * *

"From this rejection of the coin current in one district when tendered in payment in another, the merchants and traders and the proprietors and cultivators of land in different parts of the country, are subjected in their commercial dealings with each other to the same losses by exchange, and all other inconveniences that would necessarily result were the several districts under separate and independent governments, each having a different coin."

Here was a situation where trade was reduced, to barter, whether one looks upon barter as characterized by the absence of a common medium of exchange or by the presence of a plurality of the media of exchange ; for in any case, it is obvious that the want of a "double coincidence" must have been felt by people engaged in trade. One is likely to think that such could not have been the case as the medium was composed of metallic counters. But it is to be remembered that the circulating coins on India, by reason of the circumstance attendant upon the diversity in their fineness and legal tender, formed so many different species that an exchange against a particular species did not necessarily close the transaction ; the coin must, in certain circumstances, have been only an intermediate to be further bartered against another, and so on till the one of the requisite species was obtained. This is sufficient indication that society had sunk into a state of barter. If this alone was the flaw in the situation, it would have been only as bad as that of international trade under diversity of coinages. But it was further complicated by the fact that although the denomination of the coins was the same, their metalic contents differed considerably. Owing to this, one coin bore a discount or a premium in relation to another of the same name. In the absence of knowledge as to the amount of premium or discount, every one cared to receive a coin of the species known to him and current in his territory. On the whole, the obstacles to commerce arising from such a situation could not have been less than those emanating from the mandate of Lycurgus, who compelled the Lacedaemonians to use iron money in order that its weight might prevent them from overmuch trading. The situation, besides being irritating, was aggravated by the presence of an element of gall in it. Capital invested in providing a currency is a tax upon the productive resources of the community. Nevertheless, wrote James Wilson,* no one would question

> "that the time and labour which are saved by the interposition of coin, as compared with a system of barter, form an ample remuneration for the portion of capital withdrawn from productive sources, to act as a single circulator of commodities, by rendering the remainder of the capital of the country so much the more productive."

What is, then, to be said of a monetary system which did not obviate the evil consequences of barter, although enormous capital was widhdrawn from productive sources, to act as a single circulator of commodities ? Diseased money is worse than want of money. The latter at least saves the cost. But society must have money, and it must be good money, too. The task, therefore, of evolving good money out of bad money fell upon the shoulders, of the English East India Company, who had in the meanwhile succeeded to the Empire of the Moghuls in India.

* *Capital Currency and Banking,* 1847, p. 15.

The lines of reform were first laid down by the Directors of the Company in their famous Despatch, dated April 25, 1806,* to the authorities administering their territories in India. In this historic document they observed :—

> "17. It is an opinion supported by the best authorities, and proved by experience, that coins of gold and silver cannot circulate as legal tenders of payment at fixed relative values...... without loss; this loss is occasioned by the fluctuating value of the metals of which the coins are formed. A proportion between the gold and silver coin is fixed by law, according to the value of the metals, and it may be on the justest principles, but owing to the change of circumstances gold may become of greater value in relation to silver than at the time the proportion was fixed, it therefore becomes profitable to exchange silver or gold, so the coin of that metal is withdrawn from circulation ; and if silver should increase in its value in relation to gold, the same circumstances would tend to reduce the quantity of silver coin in circulation. As it is impossible to prevent the fluctuation in the value of the metals, so it is also equally impracticable to prevent the consequences thereof on the coins made from these metals .... To adjust the relative values of gold and silver coin according to the fluctuations in the values of the metals would create continual difficulties, and the establishment of such a principle would of itself tend to perpetuate inconvenience and loss."

They therefore declared themselves in favour of monometalism as the ideal for the Indian currency of the future, and prescribed :—

> "21......... that silver should be the universal money of account (in India), and that all .... accounts should be kept in the same denominations of rupees, annas and pice ....

The rupee was not, however, to be the same as that of the Moghul Emperors in weight and fineness The proposal that

> "9 .... the new rupee........be of the gross weight of—

Troy grains	...	180
Deduct one-twelfth alloy	...	15
And contain of fine silver troy grs.		165"

*H. of C. Return 127 of 1898.

Such were the proposals put forth by the Court of Directors for the reform of Indian currency.

The choice of a rupee weighing 180 grs. troy and containing 165 grs. pure silver as the unit for the future currency system of India was a well-reasoned choice.

The primary reason for selecting this particular weight for the rupee seems to have been the desire to make it as little of a departure as possible from the existing practice. In their attempts to reduce to some kind of order the disorderly currencies bequeathed to them by the Moghuls by placing them on a bimetallic basis, the Governments of the three Presidencies had already made a great advance by selecting out of the innumerable coins then circulating in the country a species of gold and silver coin as the exclusive media of exchange for their respective territories. The weights and fineness of the coins selected as the principal units of currency, with other particulars, may be noted from the summary table I. (Page 344)

To reduce these principal units of the different Presidencies to a single principal unit, the nearest and the least inconvenient magnitude of weight which would at the same time be an integral number was obviously 180 grs., for in no case did it differ from the weights of any of the prevailing units in any marked degree. Besides, it was believed that 180, or rather 179.5511, grs. was the standard weight of the rupee coin originally issued from the Moghul Mints, so that the adoption of it was really a restoration of the old unit and not the introduction of a new one.* Another advantage claimed in favour of a unit of 180 grs. was that such a unit of currency would again become what it had ceased to be, the unit of weight also. It was agreed† that the unit of weight in India had at all times previously been linked up with that of the principal coin, so that the *seer* and the *manual* weights were simply multiples of the rupee, which originally weighed 179.6 grs. troy. Now, if the weight of the principal coin to be established was to be different from 180 grs. troy, it was believed there would be an unhappy deviation from the ancient practice which made the weight of the coin the basis of other weights and measures. Besides, a unit of 180 grs. weight was not only

* Cf. The Despatch, op. cit., para. 8.

† Cf. para. 26-28 of the letter from James Prinsep to the Calcutta Mint Committee, printed in the Appendix to the Indian Tables by John Muller, Calcutta, 1836.

TABLE I

Principal Units of Currency

Issued by the Government of	Territory in which it circulated.	Date and Authority of Issue.	Silver Coins.			Gold Coins.		
			Name.	Gross Weight Troy Grs.	Pure Contents Troy Grs.	Name.	Gross Weight Troy Grs.	Pure Contents Troy Grs.
Bombay	Presidency		Surat Rupee	179.0	164.740	Mohur	179	164.740
Madras	"		Arcot "	176.4	166.477	Star Pagoda	52.40	42.55
Bengal	Bengal, Bihar and Orissa Cuttock	Regulations XXXV of 1793 XII of 1805	Sicca Rupee (19th Sun)	179.66	175.927	Mohur	190.804	189.40
Bengal	Ceded Provinces Conquered Provinces	XLV of 1803	Furrukabad Rupee (Lucknow Sicca of the 45th Sun)	173	166.135	—	—	—
Bengal	Benares Provinces	III of 1806	Benares Rupee (Muchleedar)	175	168.875	—	—	—

suitable from this point of view, but had also in its favour the added convenience of assimilating the Indian with the English units of weight.‡

While these were the reasons in favour§ of fixing the weight of the principal unit of currency at 180 grs. troy, the project of making it 165 grs. fine was not without its justification. The ruling consideration in selecting 165 grs. as the standard of fineness was, as in the matter of selecting the standard weight, to cause the least possible disturbance in existing arrangements. That this standard of fineness was not very different from those of the silver coins, recognized by the different Governments in India as the principal units of their currency, may be seen from the following comparative statement.

TABLE II

DEVIATIONS OF THE PROPOSED STANDARD OF FINENESS FROM THAT OF THE PRINCIPAL RECOGNIZED RUPEES

Silver Coins recognized as Principal Units and their Fineness		Standard Fineness of the Propose Silver Rupee Troy Grs.	More valuable than the Proposed Rupee		Less valuable than the Proposed Rupee	
Name of the Coin	Its Pure Contents Troy Grs.		In Grs.	By p.c.	In Grs.	By p.c.
Surat Rupee	164.74	165	…	…	.26	.157
Arcot Rupee	166.477	165	1.477	.887	…	…
Sicca Rupee	175.927	165	10.927	6.211	…	…
Farrukabad R.	166.135	165	1.135	.683	…	…
Benares Rupee	169.251	165	4.251	2.511	…	…

‡ *Ibid.* para. 28. How the English and the Indian systems of weights were made to correspond to each other may be seen from the following :—

		Indian		English		
8 ruttees	=	1 massa	=	15	troy	grs.
12 massas	=	1 tola (or sicca)	=	180	troy	grs.
80 tolas	=	1 seer	=	2½	troy	pounds.
40 seers	=	1 maund (or mun)	=	100	troy	pounds.

§ Attention may be drawn in this connection to the dissenting opinion of Captain Jervis on the project of 180 grs. troy as the unit of weight for the rupee. Cf. his most exhaustive treatise called *The Expediency and Facility of establishing the Metrological and Monetary Systems throughout India on a Scientific and Permanent Basis, grounded on an Analytical Review of the Weights, Measures and Coins of India* …… Bombay, 1836, pp. 49-64.

It will thus be seen that, with the exception of the Sicca and the Benares rupees, the proposed standard of fineness agreed so closely with those of the other rupees that the interest of obtaining a complete uniformity without considerable dislocation overruled all possible objections to its adoption. Another consideration that seemed to have prevailed upon the Court of Directors in selecting 165 grs. as the standard of fineness was that, in conjunction with 180 grs. as the standard weight, the arrangement was calculated to make the rupee eleven-twelfths fine. To determine upon a particular fineness was too technical a matter for the Court of Directors. It was, however, the opinion of the British Committee on Mint and Coinage, appointed in 1803, that* "one-twelfth alloy and eleven-twelfths fine is by a variety of extensive experiments proved to be the best proportion, or at least as good as any which could have been chosen." This standard, so authoritatively upheld, the Court desired to incorporate in their new scheme of Indian currency. They therefore desired to make the rupee eleven-twelfths fine. But to do so was also to make the rupee 165 grs. pure-a content which they desired, from the point of view stated above, the rupee to possess.

Reviewing the preference of the Court of Directors for monometallism from the vantage-ground of latter-day events, one might be inclined to look upon it as a little too short-sighted. At the time, however, the preference was well founded. One of the first measures, the three Presidencies, into which the country was divided for purposes of administration, had adopted on their assuming the government of the country, was to change the parallel standard of the Moghuls into a double standard by establishing a legal ratio of exchange between the mohur, the pagoda, and the rupee. But in none of the Presidencies was the experiment a complete success.

In Bengal† the Government, on June 2, 1766, determined upon the issue of a gold mohur weighing 179.66 grs. troy, and containing 149.92 grs., troy of pure metal, as legal tender at 14 Sicca rupees, to relieve the currency stringency caused

* Cf. The Despatch, op. cit., para. 9.

† F. C Harrison, "The Past Action of the Indian Government with regard to Gold," in *Economic Journal,* Vol. III, p. 54 *et seq.* Also Minute by Sir John Shore, in Bengal Public Consultations, dated September 29, 1796.

largely by its own act of locking up the revenue collections in its treasuries, to the disadvantage of commerce. This was a legal ratio of 16.45 to 1, and as it widely deviated from the market ratio of 14.81 to 1, this attempt to secure a concurrent circulation of the two coins was foredoomed to failure. Owing to the drain of silver on Bengal from China, Madras, and Bombay, the currency stringency grew worse, so much so that another gold mohur was issued by the Government on March 20, 1769, weighing 190.773 grs. troy and containing 190.086 grs. pure gold with a value fixed at 16 Sicca rupees. This was a legal ratio of 14.81 to 1. But, as it was higher than the market ratio of the time both in India (14 to 1) and in Europe (14.61 to 1), this second effort to bring about a concurrent circulation fared no better than the first. So perplexing seemed to be the task of accurate rating that the Government reverted to monometallism by stopping the coinage of gold on December 3, 1788, and when the monetary stringency again compelled it to resume in 1790 the coinage of gold, it preferred to let the mohur and the rupee circulate at their market value without making any attempt to link them by a fixed ratio. It was not until 1793 that a third attempt was made to forge a double standard in Bengal. A new mohur was issued in that year, weighing 190.895 grs. troy and containing 189.4037 grs. of pure gold, and made legal tender at 16 Sicca rupees. This was a ratio of 14.86 to 1, but, as it did not conform to the ratio then prevalent in the market this third attempt to establish bimetallism in Bengal failed as did those made in 1766 and 1769.

The like endeavours of the Government of Madras* proved more futile than those of Bengal. The first attempt at bimetalism under the British in that Presidency was made in the year 1749, when 350 Arcot rupees were legally rated at 100 Star pagodas. As compared with the then market ratio this rating involved an under-valuation of the pagoda, the gold coin of the Presidency. The disappearance of the pagoda caused a monetary stringency, and the Government in December, 1750, was obliged to restore it to currency. This it did by adopting the twofold plan of causing an import of gold on Government account, so as to equalize the mint ratio to the market ratio, and of compelling the receipts and payments of Government treasuries to be exclusively in pagodas. The latter device proved of small value ;

*H. Dodwell, "Substitution of Silver for Gold in South India," in the *Indian Journal of Economics,* January, 1921.

but the former by its magnitude was efficacious enough to ease the situation. Unluckily, the case was only temporary. Between 1756 and 1771 the market ratio of the rupee and the pagoda again underwent a considerable change. In 1756 it was 364 to 100, and in 1768 it was 370 to 100. It was not till after 1768 that the market ratio became equal to the legal ratio fixed in 1749 and remained steady for about twelve years. But the increased imports of silver, rendered necessary for the prosecution of the second Mysore war, once more disturbed the ratio, which at the close of the war stood at 400 Arcot rupees to 100 Star pagodas. After the end of the war, the Government of Madras made another attempt to bring about a concurrent circulation between the rupee and the pagoda. But instead of making the market ratio of 400 to 100 the legal ratio, it was led by the then increasing imports of gold into the Presidency to hope that the market ratio would in time rise to that legally established in 1749. In an expectant mood so induced it decided, in 1790, to anticipate the event by fixing the ratio first at 365 to 100. The result was bound to be different from that desired, for it was an under-valuation of the pagoda. But instead of rectifying the error, the Government proceeded to aggravate it by raising the ratio still further to 350 to 100 in 1797, with the effect that the pagoda entirely went out of circulation, and the final attempt at bimetallism thus ended in a miserable failure.

The Government of Bombay seemed better instructed in the mechanics of bimetallism, although that did not help it to overcome the practical difficulties of the system. On the first occasion when bimetallism was introduced in the Presidency,* the mohur and the rupee were rated at the ratio of 15.70 to 1. But at this ratio the mohur was found to be over-rated, and accordingly, in August, 1774, the Mint Master was directed to coin gold mohurs of the fineness of a Venetian and of the weight of the silver rupee. This change brought down the legal ratio to 14.83 to 1, very nearly, though not exactly, to the then prevailing market ratio of 15 to 1, and had nothing untoward happened, bimetallism would have had a greater success in Bombay than it actually had in the other two Presidencies. But this was not to be, for the situation was completely altered by the dishonesty of the Nawab of Surat, who allowed his rupees, which were of the same weight and fineness as the Bombay

* Report of Dr. Scott on the History of Coinage in the Bombay Presidency, with Appendices, Public Consultations (Bombay, dated January 27, 1801).

rupees, to be debased to the extent of 10, 12, and even 15 per cent. This act of debasement could not have had any disturbing effect on the bimetallic system prevalent in the Bombay Presidency, had it not been for the fact that the Nawab's (or Surat) rupees were by agreement admitted to circulation in the Company's territories at par with the Bombay rupees. As a result of their being legal tender the Surat rupees, once they were debased, not only drove out the Bombay rupees from circulation, but also the mohur, for as rated to the debased Surat rupees the ratio became unfavourable to gold, and the one chance for a successful bimetallic system vahished away. The question of fixing up a bimetallic ratio between the mohur and the rupee again cropped up when the Government of Bombay permitted the coinage of Surat rupees at its Mint. To have continued the coinage of the gold mohur according to the Regulation of 1774 was out of the question. One Bombay mohur contained 177.38 grs. of pure gold, and 15 Surat rupees of the standard of 1800 contained 247.11 grs. of silver. By this Regulation the proportion of silver to gold would have been $\frac{247.11}{177.38,}$ i.e. 13.9 to 1. Here the mohur would have been much under-valued. It was therefore resolved to alter the standard of the mohur to that of the Surat rupee, so as to give a ratio of 14.9 to 1. But as the market ratio was inclined towards 15.5 to 1, the experiment was not altogether a success.

In the light of this experience before them, the Court of Directors of the East India Company did well in fixing upon a monometallic standard as the basis of the future currency system of India. The principal object of all currency regulations is that the different units of money should bear a fixed relation of value to one another. Without this fixity of value, the currency would be in a state of confusion, and no precaution would be too great against even a temporary disturbance of that fixity. Fixity of value between the various components of the currency is so essential a requisite in a well-regulated monetary system that we need hardly be surprised if the Court of Directors attached special importance to it, as they may well have done, particularly when they were engaged in the task of placing the currency on a sound and permanent footing. Nor can it be said that their choice of monometallism was ill-advised, for it must be admitted that a single standard better guarantees this fixity than does the double standard. Under the former it is spontaneous, under the latter it is forced.

These recommendations of the Court of Directors were left to the different Governments in India to be carried into effect at their discretion as to the time and manner of doing it. But it was some time before steps were taken in consonance with these orders, and even then, it was on the realization of those parts of the programme of the Court which pertained to the establishment of a uniform currency that the efforts of the different Governments were first concentrated.

The task of reducing the existing units of currency to that proposed by the Court was first accomplished in Madras. On January 7, 1818, the Government issued a Proclamation* by which its old units of currency—the Arcot rupee and the Star pagoda—were superseded by new units, a gold rupee and a silver rupee, each weighing 180 grs. troy and containing 165 grs. of fine metal. Madras was followed by Bombay six years later by a Proclamation† of October 6, 1824, which declared a gold rupee and a silver rupee of the new Madras standard to be the only units of currency in that Presidency. The Government of Bengal had a much bigger problem to handle. It had three different principal units of silver currency to be reduced to the standard proposed by the Court. It commenced its work of reorganization by a system of elimination and alteration. In 1819, it doscontinued‡ the coinage of the Benares rupee and substituted in its place the Furrukabad rupee, the weight and fineness of which were altered to 180.234 and 135.215 grs. troy respectively. Apparently this was a step away from the right direction. But even here, the purpose of uniformity, so far as fineness was concerned, was discernible, for it made the Furrukabad rupee, like the new Madras and Bombay rupees, eleven-twelfth fine. Having got rid of the Benares rupee, the next step was to assimilate the standard of the Furrukabad rupee to that of Madras and Bombay, as may be seen from the following table.

* Cf. Fort St. George Publc Depart. Consultations, No. 19, dated January 7, 1818.

† Cf. Bombay Financial Consultations, dated October 6, 1824.

‡ Bengal Regulation XI of 1819.

Thus, without abrogating the bimetallic system, substantial steps were taken in realizing the ideal unit proposed by the Court, as may be seen from the following table.

TABLE III

UNIFORMITY OF COINAGE AT THE END OF AD. 1833

Issued the Government of	Silver Coins			Gold Coins			Legal Ratio
	Denomination	Weight	Fineness	Denomination	Weight	Fineness	
Bengal	Sicca Rupee	192	176 or $\frac{11}{12}$	Mohur	204.710	187.651	1 to 15
	Furrukabad Rupee	180	165 or $\frac{11}{12}$	...	...	...	...
Bombay	Silver Rupee	180	165 or $\frac{11}{12}$	Gold Rupee	180	165 or $\frac{11}{12}$	1 to 15
Madras	Silver Rupee	180	165 or $\frac{11}{12}$	" "	180	165 or $\frac{11}{12}$	1 to 15

Taking stock of the position as it was at the end of 1833, we find that with the exception of the Sicca rupee and the gold mohur of Bengal, that part of the scheme of the Directors which pertained to the uniformity of coinage was an accomplished fact. Nothing more remained to carry it to completion than to discontinue the Sicca rupee and to demonetize gold. At this point, however, arose a conflict between the Court of Directors and the three Governments in India. Considerable reluctance was shown to the demonetization of gold. The Government of Madras, which was the first to undertake the reform of its currency according to the plan of the Court, not only insisted upon continuing the coinage of gold along with that of the rupee,* but stoutly refused to deviate from the system of double legal tender at a fixed ratio prevalent in its territories,†

* The Court of Directors were willing to permit the coinage and circulation of gold *unlinked* to the rupee, for they had observed in their Despatch :—

"16. Although we are fully satisfied of the propriety of the silver rupee being the principal measure of value and the money of account, yet we are by no means desirous of checking the circulation of gold, but of establishing a gold coin on a principle fitted for general use. This coin in our opinion should be called a gold rupee and be made of the same standard as the silver rupee."

† Cf. Fort St.George Public Consultations of August 19, 1817, particularly the letter of the Accountant-General entered thereon.

notwithstanding the repeated remonstrances addressed by the Court.* The Government of Bengal clung to the bimetallic standard with equal tenacity. Rather than demonetize the gold mohur, it took steps to alter its standard† by reducing its pure contents‡ from 189.4037 to 187.651 troy grs., so as to re-establish a bimetallic system on the basis of the ratio adopted by Madras in 1818. So great was its adherence to the bimetallic standard that in 1833 it undertook to alter§ the weight and fineness of the Sicca rupee to 196 grs. troy and 176 grs. fine, probably to rectify a likely divergence between the legal and the market ratios of the mohur to the rupee.¶

But in another direction the Government in India wanted to go further than the Court desired. The Court thought a uniform currency (i.e. a currency composed of like but independent units) was all that India needed. Indeed, they had given the Governments to understand that they did not wish for more in the matter of simplification of currency and were perfectly willing to allow the Sicca and the mohur to remain as they were, unassimilated.§§ A uniform currency was no doubt a great advance on the order of things such as was left by the successors of the Moghuls. But that was not enough, and the needs of the situation demanded a common currency based on a single unit in place of a uniform currency. Under the system of uniform currency each Presidency coined its own money, and the money coined at the Mints of the other Presidencies was not legal tender in its territories except at the Mint. This monetary independence would not have been very harmful if there had existed also financial independence between the three Presidencies. As a matter of fact, although each Presidency had its own fiscal system, yet they depended upon one another for the finance of their deficits. There was a regular system of "supply" between them, and the surplus in one was being constantly drawn upon to meet the deficits in others. In the absence of

* Cf. The Public Despatches to Madras dated March 6, 1810 ; July 10, 1811 ; and June 12, 1816.

† Preamble to the Bengal Regulation XIV of 1818.

‡ It, however, increased its weight from 190.895 to 204.710 troy grs.

§ Bengal Regulation VII of 1833.

¶ It may be that this alteration was also intended to make the Sicca rupee eleven-twelfths fine.

§§Cf. Despatch to Bengal dated March 11, 1829.

a common currency this resource operation was considerably hampered. The difficulties caused by the absence of a common currency in the way of the "supply" operation made themselves felt in two different ways. Not being able to use as legal tender the money of other Presidencies, each was obliged to lock up, to the disadvantage of commerce, large working balances in order to be self-sufficient.* The very system which imposed the necessity of large balances also rendered relief from other Presidencies less efficacious. For the supply was of necessity in the form of the currency of the Presidency which granted, it, and before it could be utilized it had to be re-coined into the currency of the needy Presidency. Besides the loss *on* re-coinage, such a system obviously involved inconvenience to merchants and embarassment to the Government.†

At the end of 1833, therefore, the position was that the Court desired to have a uniform currency with a single standard of silver, while the authorities in India wished for a common currency with a bimetallic standard. Notwithstanding these divergent views, the actual state of the currency might have continued as it was without any substantial alteration either way. But the year 1833 saw an important constitutional change in the administrative relations between the three Presidential ‡ Governments in India. In that year by an Act of Parliaments there was set up an Imperial system of administration with a centralization of all legislative and executive authority over the whole of India. This change in the administrative system, perforce, called forth a change in the prevailing monetary systems. It required local coinages to be replaced by Imperial

* The Accountant-General of Bengal, in a letter to the Calcutta Mint Committee, dated November 21, 1823 wrote:—

> "Para. 32. The amount of the balance must also necessarily depend upon the state of the currency. If the Madras, Bombay, and Furrukabad rupees instaed of differing in weight and intrinsic value were coined of one standard weight and value bearing one inscription and in no way differing, the surplus of one Presidency would at all times be available for the deficiency of another, without passing through the Mint, and the balance of India might be reduced in proporion to the increased availability of currency for the disbursements of the three Presidencies" (Bombay Financial Consultations, February 25, 1824).

† The evil of the system had already made itself felt in Bombay, where the Government had been obliged by a Proclamation dated April 9, 1824, to declare the Furrukabad rupee of 1819 standard as legal tender within its territories on a par with the Bombay rupee, in order to facilitate the supply operation from Bengal. Cf. Bombay Financial Consultations, dated April 14, 1824.

‡ 3 & 4 Will, IV, c; 85.

coinage. In other words, it favoured the cause of a common currency as against that of a mere uniform currency. The authorities in India were not slow to realize the force of events. The Imperial Government set up by Parliament was not content to act the part of the Dewans or agents of the Moghuls, as the British had theretofore done, and did not like that coins should be issued in the name of the defunct Moghul emperors who had ceased to govern. It was anxious to throw off the false garb* and issue an Imperial coinage in its own name, which being common to the whole of India would convey its common sway. Accordingly, an early opportunity was taken to give effect to this policy. By an Act of the Imperial Government (XVII of 1835) a common currency was introduced for the whole of India, as the sole legal tender. But the Imperial Government went beyond and, as if by way of concession to the Court—for the Court did most vehemently protest against this common currency in so far as it superseded the Sicca rupee†—legislated "*that no gold coin shall henceforward be a legal tender of payment in any of the territories of the East India Company*." ‡

That an Imperial Administration should have been by force of necessity led to the establishment of a common currency for the whole of India is quite conceivable. But it is not clear why it should have abrogated the bimetallic system after having maintained it for so long. Indeed, when it is recalled how the authorities had previously set their faces against the destruction of the bimetallic system, and how careful they were not to allow their coinage reforms to disturb it any more violently than they could help, the provision of the Act demonetizing gold was a grim surprise. However, for the sudden *volte-face* displayed therein, the Currency Act (XVII of 1835) will ever remain memorable in the annals of the Indian history. It marked the culminating-point of a long and arduous process of monetary reform and placed India on a silver monometallic basis, with a rupee weighing 180 grs. troy and containing 165 grs. fine as the common currency and sole legal tender throughout the country.

No piece of British India legislation has led to a greater

* Cf. the sentiments of Tucker in his *Memorials of Indian Government* (ed. by Kaye), 1853, pp. 17-19.

†Cf. their Financial Despatch to India, No. 9, dated July 27, 1836.

‡ Section 9 of Act XVII of 1835.

discontent in later years than this Act XVII of 1835. In so far as the Act abrogated the bimetallic system, it has been viewed with a surprising degree of equanimity. Not all its critics, however, are aware* that what the Act primarily decreed was a substitution of bimetallism by monometallism. The commonly entertained view of the Act seems to be that it replaced a gold standard by a silver standard. But even if the truth were more generally known, it would not justify any hostile attitude towards the measure on that score. For, what would have been the consequences to India of the gold discoveries of California and Australia in the middle of the nineteenth century, if she had preserved her bimetallic system ? It is well known how this increase in the production of gold relatively to that of silver led to a divergence in the mint and the market ratios of the two metals after the year 1850. The under-valuation of silver, though not very great, was great enough to confront the bimetallic countries with a serious situation in which the silver currency, including the small change, was rapidly passing out of circulation. The United States† was obliged by the law of 1853 to reduce the standard of its small silver coins sufficiently to keep them, dollar for dollar, below their gold value in order to keep them in circulation. France, Belgium, Switzerland, and Italy, which had a uniform currency based on the bimetallic model of the French with reciprocal legal tender,‡ were faced with similar difficulties. Lest a separatist policy on the part of

* To mention only one, cf. S. V. Doraiswami, *Indian Currency,* Madras, 1915. *passim.*

† Laughlin, J. L, *History of Bimetallism,* New York, 1886, pp. 79-83.

‡ The cultural influence of France had led the other countries of Latin origin to adopt the French monetary system. The political independence acquired by Belgium in 1831 was followed by a change in her monetary system. By the law of 1832, Belgium from a monetary point of view, became a satellite of France. By that law she adopted in its entirety the monetary system of France, and even went so far as to give the French gold pieces of 20 and 40 francs and to the French silver 5-franc pieces the power of legal tender in Belgium. In Switzerland, Art. 36 of the Constitution of 1848 had vested in the Federal Government the authority to coin money. The law of May 7, 1850, adopted the French monetary system for Switzerland : Art. 8 declared "that such foreign silver coins as were minted in sufficiently close proximity with the French system might be granted a legal status as regular media for the payment of debts in Switzerland." The various Italian States, prior to unification, had, like the Swiss Cantons, each its own currency. But with the desire for uniformity of coinage consequent upon unification, there arose a problem either of selecting one of the old systems or of adopting a new one which would be common to the whole country. Some form of a grateful memorial to France was uppermost in the minds of the Italians for the help the French gave in the matter of their independence, and the adoption of the French monetary system for Italy was deemed to serve the purpose. Fortunately, Sardinia already possessed the French system, and the law of August 24, 1862, extended it to the whole of Italy, with the lire as the unit, and also conferred legal-tender power on the coins of France, Belgium, and Switzerland, Cf. H.P. Willis, *History of the Latin monetary Union,* Chicago, 1910, pp. 15, 27, 36, 37.

each nation,* to protect their silver currency and particularly the small change, should disrupt the monetary harmony prevailing among them all, they were compelled to meet in a convention, dated November 20, 1865, which required the parties, since collectively called the Latin Union, to lower, in the order to maintain them in circulation, the silver pieces of 2 francs, 1 franc, 50 centimes, and 20 centimes from a standard of $\frac{900}{1000}$ fine to $\frac{835}{1000}$ and to make them subsidiary coins.† It is true that the Government of India also came in for trouble as a result of this disturbance in the relative value of gold and silver, but that trouble was due to its own silly act.‡ The currency law of 1835 had not closed the Mints to the free coinage of gold, probably because the seignorage on the coinage of gold was a source of revenue which the Government did not like to forego. But as gold was not legal tender, no gold was brought to the Mint for coinage, and the Government revenue from seignorage fell off. To avoid this loss of revenue, the Government began to take steps to encourage the coinage of gold. In the first place, it reduced the seignorage§ in 1837 from 2 per cent, to 1 per cent. But even this measure was not sufficient to induce people to bring gold to the Mint, and consequently the revenue from seignorage failed to increase. As a further step in the same direction, the Government issued a Proclamation on January 13, 1841, authorizing the officers in charge of public treasuries to receive the gold coins at the rate of 1 gold mohur equal to 15 silver rupees. For some time no gold was received, as at the rate prescribed by the Proclamation gold was undervalued.¶ But the Australian and Californian gold discoveries altered the situation entirely. The gold mohur, which was undervalued at

* Switzerland was the fifrst to reduce the amount of silver in her small coins in order to keep them in circulation. But these Swiss coins of reduced fineness crossed the national frontier and, as they were legal tender in other countries of Latin origin, began to displace their dearer coins of similar denominations, which contained more silver but which passed current at the same nominal value. This brought forth a decree in France (April 14, 1864) which revoked the legal tender power to a concerted action on the part of all the Latin countries concerned.

† For more particulars of the Latin Union, cf. Laughlin, op. cit, pp. 146-9.

‡Cf. H. of C Return, East Indian (Coinage) 254 of 1860.

§ *Ibid.* p. 8.

¶ *Ibid,* p. 10.

Rs. 15, became overvalued, and the Government which was at one time eager to receive gold, was alarmed at its influx. By adopting the course it did of declaring gold no longer legal tender, and yet undertaking to receive it in liquidation of Government demands, it laid itself under the disadvantage of being open to be embarrassed with a coin which was of no use and must ordinarily have been paid for above its value. Realizing its position, it left aside all considerations of augmenting revenue by increased coinage, and promptly issued on December 25, 1852, another Proclamation withdrawing that of 1841. Whether it would not have been better to have escaped the embarrassment by making gold general legal tender than depriving it of its partial legal-tender power is another matter. But, in so far as India was saved the trials and tribulations undergone by the bimetallic countries to preserve the silver part of their currency, the abrogation of bimetallism was by no means a small advantage. For, the measure had the virtue of fore-arming the country against changes which, though not seen at the time, soon made themselves felt.

The abrogation of bimetallism in India, accomplished by the Act of 1835, cannot therefore be made a ground for censure. But it is open to argument that a condemnation of bimetallism is not *per se* a justification of silver monometallism. If it was to be monometallism it might well have been gold monomentallism. In fact, the preference for silver monometallism is not a little odd when it is recalled that Lord Liverpool, the advocate of monometallism,* whose doctrines the Court had sought to apply to India, had prescribed gold monometallism for similar currency evils then prevalent in England. That the Court should have deviated from their guide in this particular has naturally excited a great deal of hostile comment as to the propriety of this grave departure.† At the outset any appeal to ulterior motives must be baseless, for Lord Liverpool was not a "gold bug," nor was the Court composed of "silver men." As a matter of fact, neither of them at all considered the question from the standpoint as to which was a better standard of value, gold or silver. Indeed, in so far as that was at all a consideration worth attending to, the choice of the Court, according to the opinion of the time, was undoubetdly a better one than that of Lord

* The author of *A Treatise on the Coinage of the Realm* was anticipated by Sir John Shore, the Governor of Bengal, in his Minute, op. cit., par 55.

† Cf. H. M. Dunning, *Indian Currency,* 1898, *passim;* also S. V. Doraiswami, op. cit., *passim.*

Liverpool. Not only were all the theorists, such as Locke, Harris, and Petty, in favour of silver as the standard of value, but the practice of the whole world was also in favour of silver. No doubt, England had placed herself on a gold basis in 1816. But that Act, far from closing the English Mint to the free coinage of silver, left it to be opened by a Royal Proclamation.* The Proclamation, it is true, was never issued, but it is not to be supposed that therefore Englishmen of the time had regarded the question of the standard as a settled issue. The crisis of 1825 showed that the gold standard furnished too narrow a basis for the English currency system to work smoothly, and, in the expert opinion of the time,† the gold standard, far from being the cause of England's commercial superiority, was rather a hindrance to her prosperity, as it cut her off from the rest of the world, which was mostly on a silver basis. Even the British statesmen of the time had no decided preference for the gold standard. In 1826, Huskisson actually proposed that Government should issue silver certificates of full legal tender.‡ Even as late as 1844 the question of the standard was far from being settled, for we find Peel, in his Memorandum§ to the Cabinet, discussing the possibility of abandoning the gold standard in favour of the silver or a bimetallic standard without any compunction or predilection one way or the other. The difficulties of fiscal isolation were evidently not so insuperable as to compel a change of the standard, but they were great enough to force Peel to introduce his famous proviso embodying the Huskisson plan in part in the Bank Charter Act of 1844, permitting the issue of notes against silver to the extent of one-fourth of the total issues.¶ Indeed, so great was the universal faith in the stability of silver that Holland changed in 1847 from what was practically a gold monometallism§§ to silver monometallism because her statesmen believed that

> "it had proved disastrous to the commercial and industrial

* Cf. Dana Horton, *The Silver Pound,* 1887, p. 161.

† Cf. the evidence of A. Baring (afterwards Lord Ashuburton) before the Committee for Coin (1828), H. of C. Return 31 of 1830.

‡ *See* his Memorandum to the Cabinet printed by Gibbs, *A Colloquy on Currency* (1894), Appendix, p. xlvii.

§ For which, see Andreades, *History of the Bank of England,* Supplement I.

¶ For the original purpose of this defunct proviso, *see* Peel's Speech on the Bank Charter Act, dated May 20, 1844, Hansard, Vol. LXXIV, pp. 1334-35.

§§ In theory Holland had adopted bimetallism in 1816. But the legal ratio of 15.873 to 1 had undervalued silver so much that it had made gold the chief circulating medium of Holland.

interests of Holland to have a monetary system identical with that of England, whose financial revulsions, after its adoption of the gold standard, had been more frequent and more severe than in any other country, and whose injurious effects were felt in Holland scarcely less than in England. They maintained that the adoption of the silver standard would prevent England from disturbing the internal trade of Holland by draining off its money during such revulsions, and would secure immunity from evils which did not originate in and for which Holland was not responsible."*

But stability was not the ground on which either the Court or Lord Liverpool made their choice of a standard metal to rest. If that had been the case, both probably would have selected silver. As it was, the difference in the choice of the two parties was only superficial. Indeed, the Court differed from Lord Liverpool, not because of any ulterior motives, but because they were both agreed on a fundamental proposition that not stability but popular preference should be the deciding factor in the choice of a standard metal. Their differences proceeded logically from the agreement. For, on analysing the compositon of the currency it was found that in England it was largely composed of gold and in India it was largely composed of silver. Granting their common premise, it is easy to account why gold was selected for England by Lord Liverpool and silver for India by the Court. Whether the actual composition of the currency is an evidence of popular preference cannot, of course, be so dogmatically asserted as was done by the Court and Lord Liverpool. So far as England is concerned, the interpretation of Lord Liverpool has been questioned by the great economist David Ricardo. In his *High Price of Bullion,* Ricardo wrote :—

" For many reasons given by Lord Liverpool, it appears proved beyond dispute that gold coin has been for near a century the principal measure of value; but this is, I think, to be attributed to the inaccurate determination of the mint proportions. Gold has been valued too high ; no silver can therefore remain in circulation which is of its standard weight. If a new regulation

* *Report of the U. S. Silver Commission of* 1876, p. 68.

were to take place, and silver be valued too high ...... gold would then disappear, and silver become the standard money."*

And it is possible that mint proportions rather than popular preference† could have equally well accounted for the preponderance of silver in India.‡

Whether any other criterion besides popular; preference could have led the Court to adopt gold monometallism is a moot question. Suffice it to say that the adoption of silver monometallism, though well supported at the time when the Act was passed, soon after proved to be a measure quite inadequate to the needs of the country. It is noteworthy that just about this time great changes were taking place in the economy of the Indian people. Such a one was a change from kind economy to cash economy. Among the chief causes contributory to this transformation the first place must be given to the British system of revenue and finance. Its effects in shifting Indian society on to a cash nexus have not been sufficiently realized,§ although they have been very real. Under the native rulers most payments were in kind. The standing military force kept and regularly paid by the Government was small. The bulk of the troops consisted of a kind of militia furnished by Jageerdars and other landlords, and the troops or retainers of these feudatories were in great measure maintained on the grain, forage, and other supplies furnished by the districts in which they were located. The hereditary revenue and police officers were generally paid by grants of land on tenure of service. Wages of farm servants and labourers were in their turn distributed in grain. Most of its officers being paid in kind, the State collected very little of its taxes in cash. The innnovations made by the British in this rude revenue and fiscal system were

* *Works,* p. 271.

† Mr. Dodwell, in his otherwise excellent article, op. cit., seems to convey that silver was substituted for gold in Southern India as a result of the natural preference of the people for the former metal. So eager is he in meeting the contentions of writers like Mr. Doraiswami that he fails to see how his own facts controvert his own thesis.

‡ The total coinage of India from 1800 to 1835 was, according to Mr. F. C. Harrison's estimate in the *Calcutta Review,* July, 1892:—

Gold	...	...	£ 3,845,000 ounces
Silver	...	...	£ 3,781,250,000 ounces

N.B.—In the case of silver, rupees are converted into ounces for comparison.

§ Cf. the article " The Silver Question as regards India," in the *Bombay Quarterly Review,* April, 1857.

of the most sweeping character. As territory after territory passed under the sway of the British, the first step taken was to substitute in place of the rural militia of the feudatories a regularly constituted and a well-disciplined standing army located at different military stations, paid in cash ; in civil employ, as in military, the former revenue and police officers with their followers, who paid themselves by perquisites and other indirect gains received in kind, were replaced by a host of revenue collectors and magistrates with their extensive staff, all paid in current coin. The payments to the army, police, and other officials were not the only payments which the British Government had placed on a money basis. Besides these charges, there were others which were quite unknown to the native Governments, such as the "Home Charges" and " Interest on Public Debt," all on a cash basis. The State, having undertaken to pay in cash, was compelled to realize all its taxes in cash, and as each citizen was bound to pay in cash, he in his turn stipulated to receive nothing but cash, so that the entire structure of the society underwent a complete transformation.

Another important change that took place in the economy of the Indian people about this time was the enormous increase of trade. For a considerable period, the British tariff policy and the navigation laws had put a virtual check on the expansion of Indian trade. England compelled India to receive her cotton and other manufactures at nearly nominal (2½ per cent.) duties, while at the same time she prohibited the entry of such Indian goods as competed with hers within her territories by prohibitory duties ranging from 50 to 500 per cent. Not only was no reciprocity shown by England to India, but she made a discrimination in favour of her colonies in the case of such goods as competed with theirs. A great agitation was carried on against this unfair treatment,* and finally Sir Robert Peel admitted Indian produce to the low duties levied by the reformed tariff of 1842. The repeal of the navigation laws gave further impetus to the expansion of Indian commerce. Along with this, the demand for Indian produce had also been growing. The Crimean War of 1854 cut off the Russian supplies, the place of which was taken

* Cf. Debates at the East India House on Duties affecting Indian Commerce, vide the *Asiatic Journal and Monthly Register for British and Foreign India, China, Australia* (London, New Series, Vol. XXXVII, January, and Vol. XXXVIII, May, 1842).

by Indian produce, and the failure of the silk crop in 1853 throughout Europe led to the demand for Asiatic, including Indian, silks.

The effect of these two changes on the currency situation is obvious. Both called forth an increased demand for cash. But cash was the one thing most difficult to obtain. India does not produce precious metals in any considerable quantity. She has had to depend upon her trade for obtaining them. Since the advent of the European Powers, however, the country was not able to draw enough for the precious metals. Owing to the prohibitions on the export of precious metals then prevalent in Europe,* one avenue for obtaining them was closed. But there was little chance of obtaining precious metals from Europe, even in the absence of such prohibition ; indeed, precious metals did not flow to India when such prohibitions were withdrawn.† The reason of the check to the inflow of precious metals was well pointed out by Mr. Petrie in his Minute of November, 1799, to the Madras Committee of Reform.‡ According to Mr. Petrie, the Europeans before they acquired their territorial possessions

> "purchased the manufactures of India with the metals of Europe : but they were henceforward to make these purchases with gold and silver of India, the revenues supplied the place of foreign bullion and paid the native the price of his industry with his own money. At first this revolution in the principles of commerce was but little felt, but when opulent and extensive dominions were acquired by the English, when the success of war and commercial rivalship had given them so decided a superiority over the other European nations as to engross the whole of the commerce of the East, when a revenue amounting to millions per annum was to be remitted to Europe in the manufactures of the East, then were the effects of this revolution severely felt in every part of India. Deprived of so copious a stream, the river rapidly retired from its banks and ceased to fertilize the adjacent fields with overflowing water."

The only way open, when the prohibitions were withdrawn

* For the History of those imposed by England, cf. Ruding, *Annals of Coinage,* 3rd. ed. Vol. I, pp. 353-4, 372, 376, 386-7 ; Thomas Violet, *An Appeal to Caesar,* London, 1660, p. 26.

† The following figures of the export of precious metals to India from England are interesting :—

1652-1703	...	£ 1,131,653	(from Mr. Petrie's Minute).
1747-1795	...	£ 1,519,654	" " "

‡ For the proceedings of the Committee, see India Office Records, "*Home Miscellaneous*" Series, Vol. 456.

to obtain precious metals, was to send more goods than this amount of tribute, so that the balance might bring them in. This became possible when Peel admitted Indian goods to low tariff, and the country was for the first time able to draw in a sufficient quantity of precious metals to sustain her growing needs. But this ease in the supply of precious metals to serve as currency was shortlived. The difficulties after 1850, however, were not due to any hindrance in the way of India's obtaining the precious metals. Far from being hindered, the export and import of precious metals was entirely free, and India's ability to procure them was equally great. Neither were the difficulties due to any want of precious metals ; for, as a matter of fact, the increase in the precious metals after 1850 was far from being small. The difficulty was of India's own making, and was due to her not having based her currency on that precious metal, which it was easy to obtain. The Act of 1835 had placed India on an exclusive silver basis. But, unfortunately, it so happened that after 1850, though the total production of the precious metals had increased that of silver had not kept pace with the needs of the world, a greater part of which was then on a silver basis, so that as a result of her currency law India found herself in an embarrasing position of an expanding trade with a contracting currency, as is shown in the Table IV on page 364.

On the face of it, it seems that there need have been no monetary stringency. The import of silver was large, and so was the coinage of it. Why then should there have been any stringency at all ? The answer to this question is not far to seek. If the amount of silver coined had been retained in circulation it is possible that the stringency could not have arisen. India has long been notoriously the sink of the precious metals. But in interpreting this phenomenon, it is necessary to bear in mind the caution given by Mr. Cassels that

> "its silver coinage has not only had to satisfy the requirements of commerce as the medium of exchange, but it has to suply a sufficiency of material to the silversmith and the jeweller. The Mint has been pitted against the smelting-pot, and the coin produced by so much patience and skill by the one has been rapidly reduced into bangles by the other."*

* Minute on Gold Currency for India, dated December 8, 1863, in the *Report of the Bombay Chamber of Commerce,* 1863-64. App. I, p. 189.

TABLE IV*

Trade and Currency

Years	Merchandise.		Treasure. Net Imports of		Total Coinage of		Excess (+) or Defect (—) of Coinage on Net Imports of		Annual Production (in £, 00,000 omitted) of	
	Imports. £	Exports. £	Silver. £	Gold. £	Silver. £	Gold. £	Silver. £	Gold. £	Gold.	Silver.
1850-51	11,558,789	18,164,150	2,117,225	1,153,294	3,557,906	123,717	+ 1,440,681	-1,029,577	8,9	7,8
1851-52	12,240,490	19,879,406	2,865,357	1,267,613	5,170,014	62,553	+ 2,304,657	-1,205,060	13,5	8,0
1852-53	10,070,863	20,464,633	3,605,024	1,172,301	5,902,648	Nil	+ 2,297,624	-1,172,301	36,6	8,1
1853-54	11,122,659	19,295,139	2,305,744	1,061,443	5,888,217	145,679	+ 3,582,473	- 915,764	31,1	8,1
1854-55	12,742,671	18,927,222	29,600	731,490	1,890,055	2,676	+ 1,860,455	- 728,814	25,5	8,1
1855-56	13,943,494	23,038,259	8,194,375	2,506,245	7,322,871	167,863	+ 871,504	-2,338,382	27,0	8,1
1856-57	14,194,587	25,338,451	11,073,247	2,091,214	11,220,014	128,302	+ 146,767	-1,962,912	29,5	8,2
1857-58	15,277,629	27,456,036	12,218,948	2,783,073	12,655,308	43,783	+ 436,360	-2,739,290	26,7	8,1
1858-59	21,728,579	29,862,871	7,728,342	4,426,453	6,641,548	132,273	-1,086,794	-4,294,180	24,9	8,1
1859-60	24,265,140	27,960,203	11,147,563	4,284,234	10,753,068	64,307	- 394,495	-4,219,927	25,0	8,2

* Prepared from figures given in Report Palgrave's "Memorandum on Currency and Standard of Value," Appendix B to Third Report of the *Royal Commission on Depression of Trade and Industry*. C4797 of 1886. Figures for the production of gold and silver, which are for calander years, are added from the "Silver Question and the Gold Question," by R. Barclay.

Now it will be seen from the figures given that all the import of silver was coined and used up for currency purposes. Very little or nothing was left over for the industrial and social consumption of the people. That being the case, it is obvious that a large part of the coined silver must have been abstracted from monetary to non-monetary purposes. The hidden source of this monetary stringency thus becomes evident. To men of the time it was as clear as daylight that it was the rate of absorption of *currency* from monetary to non-monetary purposes that was responsible as to why (to quote from the same authority)

> "notwithstanding such large importations the demand for money has so far exceeded........that serious embarrassment has ensured and business has almost come to a stand from the scarcity of circulating medium. As fast as rupees have been coined they have been taken into the interior and have there disappeared from circulation, either in the Indian substitute for stocking-foot or in the smelting-pot into bangles."*

The one way open was to have caused such additional imports of silver as would have sufficed both for the monetary as well as the non-monetary needs of the country. But the impors of silver were probably already at their highest. For, as was argued by Mr. Cassels,

> "the annual production of silver of the whole world does not exceed ten million sterling. During the last few years, therefore, India alone has annually taken, and to a great extent absorbed, more of the metal than has been produced by the whole world. It is clear that this cannot long continue without producing serious embarrassment. Either the European markets will be unable or unwilling to supply us, or the value of silver will rise to an extravagant extent. Under such circumstances it is not difficult to foresee that the present crisis must continually recur, and the commerce in this country must be periodically, if not permanently, crippled by the scarcity of the circulating medium."†

Had there been any credit media the contraction of currency

* Minute on Gold Currency for India, dated December 1, 1863. Report, op. cit. p. 184.

† Report, op. cit. p. 189.

might not have been felt as severely as it was. But there was no credit money worth the name. The Government issued interest-bearing Treasury notes, which formed a part of the circulating medium of the country. But, apart from being insignificant in amount,* these Treasury notes had

> "proved a failure, owing, firstly, to the condition that they would not be received in payment of revenue for twelve months; secondly, they would be paid off or received only where issued, so that as the issues were confined to Calcutta, Madras and Bombay, their use and employment for purposes of circulation were limited to those cities …… and lastly, because their amounts were too large and their period of running at interest too short."†

Nor was banking so widely developed as to satisfy the currency needs of comerce. The chief hindrance to its growth was the attitude of the Court. Being itself a commercial body largely dealing in exchange, the Court was averse to the development of banking institutions lest they should prove rivals. As this traditional policy of hostility continued even after the Court had ceased to be a body of merchant princes, banks did not grow with the growth of trade. Indeed, as late as 1856 banks in India numbered few and their issues were small, as shown in the table on page 367. (Table V)

The insufficiency of silver and the want of credit currency caused such an embrrassment to trade that there grew up a change in the attitude toward the Currency Act of 1835, and people for once, began to ask whether, although it was well to have changed from bimetallism to monometallism, it would not have been better to have preferred gold monometallism to silver monometallism. As more and more of gold was imported and coined, the stronger grew the demand for giving it a legal

* Amount of Indian Treasury notes outstanding :—

On April 30, 1850	£804,988	Extracted from Table No. 2 of the Return relating to East India Revenues, etc., Parliamentary paper 201, VIII, 1858.
On April 30, 1851	802,036	
On April 30, 1852	770,301	
On April 30, 1853	850,432	
On April 30, 1854	850,627	
On April 30, 1855	889,875	
On April 30, 1856	967,711	

† *How to meet the Financial Difficulties of India,* by A. C. B., London, 1859, p. 13. This is in many ways a most remarkable pamphlet, which suggested many of the later reforms in Indian currency and banking.

TABLE V

BANKS IN INDIA *

Name of the Bank.	Year of Establishment.	Head Offices.	Branches and Agencies.	Capital. Subscribed. £	Capital. Paid up. £	Notes in Circulation. £	Specie in Coffers. £	Bills under Discount. £
Bank of Bengal	1809	Calcutta		1,070,000	1,070,000	1,714,771	851,964	125,251
Bank of Madras	1843	Madras		300,000	300,000	123,719	139,960	59,871
Bank of Bombay	1840	Bombay		522,000	522,000	571,089	240,073	195,836
Oriental Bank.	1851			1,215,000	1,215,000	199,279	1,146,529	2,918,399
Agra and U.P. .	1833	Calcutta	Agra, Madras, Lahore, Canton, and London	700,000	700,000	—	74,362	—
N.W. Bank	1844	"	Bombay, Simla, Mussowri and Agra Agencies in Delhi and Cawnpore	220,560	220,000	—	—	—
London & Eastern Bank	1854			250,000	—	325,000	—	—
Commercial Bank	1854	Bombay	Agents in London, Calcutta, Canton, & Shanghai	1,000,000	456,000	—	—	—
Delhi Bank .	1844	Delhi	Agents in London, Calcutta, Bombay, and Madras	—	180,000	—	—	—
Simla Bank .	1844			—	63,850	—	—	—
Dacca Bank .	1846			30,000	—	—	—	—
Mercantile Bank		Bombay	London, Calcutta, Colombo, Kandy, Canton, and Shanghai	500,000	328,826	777,156	77,239	109,547
India, China and Australian Bank				had not commenced business				

* R. M. Martin, *The Indian Empire,* Vol. 1, p. 665. N.B.—The table in original does not specify dates, but internal evidence shows that it is a about 1856.

status in the existing system of Indian currency.* All were agreed on the principle of a gold currency : whatever difference there was, was confined to the method of its adoption. The introduction of gold on a bimetallic basis was out of the question, for the Government refused to make what it deemed to be the "hopeless attempt" to fix the value of gold and silver and compel their acceptance at that value.† The projects which the Government was willing to consider‡ were : (1) to introduce the "sovereign" or some other gold coin and to let it circulate at its market price from day to day as measured in silver; (2) to issue a new gold coin, bearing the exact value of a given number of rupees, and make it a legal tender for a limited period, when it might be readjusted and again valued, and made a legal tender for a similar period at the new rate ; (3) to introduce the English sovereign as a legal tender for Rs. 10, but limited in legal tender to the amount of Rs. 20 or two sovereigns ; or (4) to substitute a gold standard for the silver standard.

Of these projects, the first three were evidently unsafe as currency expendients. Fixity of value between the various components of the currency is an essential requisite in a well-regulated monetary system. Each coin must define a fixed value, in terms of the others realizable by the most untutored intellect. When it ceases to do so, it becomes a mere commodity, the value of which fluctuates with the fluctuations of the market. This criterion ruled out the first two projects. To have introduced a coin as money, the value of which could not be vouched for—as would have been the case under the first project—from one day to another, apart from the trouble of computing and ascertaining the fluctuations, would have been a source of such embarassment that the Government, it must be said, acted wisely in not adopting it. There was no saving grace in the second project to recommend its adoption in preference to the first. If it had been adopted the result would have been that during the period when a rate remained fixed, gold would have

* The matter was first broached by the native shroffs and merchants of Calcutta in April. 1859, in a letter to the President of the Bengal Chamber of Commerce. Both agreed to urge upon the Government the necessity of a gold currency in India. Cf. *Papers relating to the Introduction of a Gold Currency in India,* Calcutta, 1866, pp. 1-3.

† *Ibid.,* p. 6.

‡ Cf. Minute by the Rt. Hon. James Wilson, dated December 25, 1859, *Ibid.,* p. 23.

been forced into circulation supposing that its market value was lower, and at the end of the year, if it was known that the rate would be revised and the value of the coin be reduced in conformity with the fall of gold, a general struggle to get rid of the overrated gold coin and shift the inevitable loss to the shoulders of others would have certainly ensued. The third was a somewhat strange proposal. It is possible with a low-priced metal to strike coins of less than full value for the purposes of small payments and limit their tender. But this is not possible with a high-priced metal, the *raison d'etre* of which is to facilitate large transactions. The objections to the plan could hardly be concealed. So long as gold was undervalued, it would not circulate at all. But once it became overvalued owing to changes in the market ratio, the rupee would go out of circulation, and shopkeepers and traders would remain possessed of a coin which would be of no use in liquidating large transactions.

The only project free from these faults was the adoption of a gold standard, with silver as a subsidiary currency. The strongest argument, the Government could advance against this demand was that "in a country where all obligations have been contracted to be paid in silver, to make a law by which they could forcibly be paid in anything else would simply be to defraud the creditor for the advantage of the debtor, and to break public faith."* However sound the argument might have been, it was hopelessly inadequate to meet the growing demand to place the Indian *currency on* an expanding basis. Indeed, it cannot be said that the Government was really serious in its opposition to a gold currency. For the strength of its position, it relied not so much on the soundness of its arguments against gold, but on its discovery that a better solution than a gold currency existed at hand. If what was wanted was a supplement to the existing currency, then the remedy proposed by the Government was unassailable. Gold would have been uneconomical and inconvenient. Silver backed by paper would make the currency economical, convenient, and expansive. Indeed, the advantages were so much in favour of the official alternative that this first attempt against the silver standard resulted not in the establishment of a gold standard, but in the introduction of a Government paper currency to supplement the existing silver standard.

* *Ibid,* p. 26.

None the less, the desire for a gold standard on the part of the people was too great to be altogether ignored, though the demand for it was supposed to have been met by the alternative measure. The paper currency, as originally conceived by Mr. Wilson, was a complete counterblast to the gold agitation. But his successor, Mr. Laing, differed from him in what he regarded as the "barbarous" exclusion of gold from Indian currency. He therefore introduced two important provisos in the original Bill, when the task of carrying it through fell upon him, owing to the untimely death of Mr. Wilson. One was to raise the lowest denomination of notes from Rs. 5 to Rs. 20. The other was

> "to authorize the Governor-General in Council from time to time to direct by order to be published in the Gazettes of Calcutta, Madras and Bombay, that notes to an extent not exceeding one-fourth of the total amount of issues represented by coin and bullion ...... be issued in exchange for gold coin...... or bullion computed at rates to be fixed by such order ...."

The Act, which afterwards embodied the Bill, adopted the second proviso *in toto,* and the first after being modified so as to fix Rs. 10 as the lowest denomination of notes to be issued. Although its general tenor is clear, the immediate aim of the second proviso does not become quite clear from a perusal of the official papers. The Select Committee on the Paper Currency Bill seem to have held that the proviso was innocuous, if not good. It thought

> "that on special occasions and in particular transactions it might be a great advantage to the mercantile community to know that gold could be made available as money at a fixed rate. If, on the other hand, at the rate fixed gold did not enter into circulation it would prove that silver, with a secure and convertible paper currency, gave perfect confidence and answered all the wants of the trade and of the community, and the enactment would remain a dead letter and be perfectly harmless."

But there is no doubt that Mr. Laing looked upon it as an easy means of making a transition to the gold standard. In his Minute on Currency and Banking, dated May 7, 1862, he wrote :

> "The object of this proviso was simply to leave the door

open for cautious and tentative experiments with regard to the future use of gold. The importation of gold already exists and is increasing, and the metal is much appreciated by the native population as generally to command a premium .... Thus, after a time, if the use of gold becomes more general, and its value more fixed, some further step might be taken."

And such seems to have been the impression of the Secretary of State at the time, for he understood the force of the recommendation in favour of issuing notes against gold was that it would "effectively contribute to the introduction of a gold currency in India."*

But whether conceived as a relief to the mercantile community or as an avenue for introducing a gold currency the proviso was not put into effect. The Secretary of State objected† to any action being taken with regard thereto. In the meantime the paper currency did not prove the panacea, it was avowed to be. The extent it reached and the economy it effected were comparatively insignificant.

TABLE VI

EXTENT AND ECONOMY OF PAPER CURRENCY

Presidencies	Bullion	Coin	Government Securities	Value of Notes in Circulation
Calcutta on Oct. 31, 1863	......	1,84,55,922	1,10,44,078	2,95,00,000
Madras on Oct. 31, 1863	......	73,00,000	......	73,00,000
Bombay on Jan. 4, 1864	1,17,00,000	1,19,00,000	......	2,36,00,000
Total	1,17,00,000	3,76,55,922	1,10,44,078	6,04,00,000

As was pointed out by Mr. Cassels‡ the currency notes, after three years, had been taken only to the extent of about 6 per cent, of the whole metallic currency, which was then estimated by Mr. Wilson to be £ 100,000,000 in sterling, and that they had actually fulfilled their primary object of releasing the

* Par. 59 of the Secretary of State's Despatch, No. 158, dated September 16, 1862.

† *See* par. 64 of his Despatch, *supra.*

‡ *Cf. his letter to the Government of bombay, dated January 1, 1864.* Vide Papers, etc., on the Introduction of Gold in India, pp. 51-69

reproductive capital of the country only to the extent of a million sterling or 1 per cent, of the whole. Owing to the demand for Indian cotton in the Liverpool market to take the place of American cotton, the export of which was stopped during the Civil War, the growing foreign trade assumed enormous proportions. And as the paper currency gave no relief, the entire stress fell upon silver. The production of silver, however, was not increasing much faster than it did previously, and its absorption by India had not slackened. The inadequacy of a currency medium therefore continued to be felt as acutely as before, notwithstanding the introduction of a paper currency. Not only was gold imported in large quantities, but was employed for monetary purposes, although it was not legal tender. The fact was brought to the notice of the government of India by the Bombay Chamber of Commerce* in a memorial praying for the introduction of a gold currency in India, in which it was pointed out

> "that there is an increasing tendency to the creation of a gold ingot currency, but the natives of this country, as a rude remedy for the defects of the existing silver one,"

and

> "that gold bars, stamped with the mark of Bombay banks, are for this purpose circulated in several parts of the country."

This led to an agitation for requiring the Government to give effect to the proviso in the Paper Currency Act,† and the movement assumed such dimensions that it forced the hands of the Government. On this occasion, the plan for effecting the change was boldly conceived. Sir Charles Trevelyan saw through the weak point of the proviso on which the Government was called upon to act. He argued that the currency notes were payable only in the current coin of the country, which in India was the silver rupee, and to hold a portion of the reserve gold which could not be tendered in payment of the notes was seriously to endanger their convertibility in times of political

* *Report of the Bombay Chamber of Commerce,* 1863-64, App. I, p. 206.

† This time the Government was memorialized by all the Chambers of Commerce— Bengal, Bombay, and Madras. Action was also urged by the Bombay Association and the Manchester Chamber of Commerce. But the movement derived its greatest strength from the support of the Government of Bombay, particularly by Sir William mansfield's famous Minute on Gold Currency for India.

TABLE VII*

TRADE AND CURRENCY

Years.	Merchandise.		Treasure. Net Imports of		Total Coinage of		Excess (+) or Defeet (—) of Coinage on Net Imports of		Annual Production (in £, 00,000 omitted) of	
	Imports. £	Exports. £	Silver. £	Gold. £	Silver. £	Gold. £	Silver. £	Gold. £	Gold.	Silver.
1860–61	23,493,716	32,970,605	5,328,009	4,232,569	5,297,150	65,038	– 30,859	– 4,167,531	23,9	8,2
1861–62	22,320,432	36,317,042	9,086,456	5,184,425	7,470,030	58,667	– 1,616,426	– 5,125,758	22,8	8,5
1862–63	22,632,384	47,859,645	12,550,155	6,848,156	9,355,405	130,666	– 3,194,750	– 6,717,490	21,6	9,0
1863–64	27,145,590	65,625,449	12,796,717	8,898,306	11,556,720	54,354	– 1,239,997	– 8,843,952	21,4	9,8
1864–65	28,150,923	68,027,016	10,078,798	9,839,964	10,911,322	95,672	+ 832,524	– 9,744,292	22,6	10,3
1865–66	29,599,228	65,491,123	18,668,673	5,724,476	14,639,353	17,665	– 4,029,320	– 5,706,811	24,0	10,4
1866–67	29,038,715	41,859,994	6,963,073	3,842,328	6,183,113	27,725	– 779,960	– 3,814,603	24,2	10,1
1867–68	35,705,783	50,874,056	5,593,961	4,609,466	4,385,080	21,534	– 1,208,881	– 4,587,932	22,8	10,8
1868–69	35,990,142	53,062,165	8,601,022	5,159,352	4,269,305	25,156	– 4,331,717	– 5,134,196	22,0	10,0
1869–70	32,927,520	52,471,376	7,320,337	5,592,016	7,510,480	78,510	+ 190,143	– 5,513,506	21,2	9,5

*Sources same as those used in the case of Table IV.

distrust or commercial panic.* He therefore ventured beyond the scope of the agitation, and pronounced that instead of allowing gold a backdoor entry into the currency system it ought to be made the standard of value in India. He did not agree with Mr. Wilson that the substitution of gold for the silver standard would be "to break faith with the creditor." Nor was he much deterred by the fact that before the silver currency could be reduded to a subsidiary position, the introduction of gold in India would give rise to a double standard for the time being ; for he argued that "all nations must pass through a transition stage of a double standard before they arrive at a single standard." Accordingly he proposed that (1) sovereigns and half-sovereigns of British or Australian standard should be legal tender in India, at the rate of one sovereign for Rs. 10, and that (2) Government currency notes should be exchangeable either for rupees or sovereigns at the rate of one sovereign for Rs. 10, but that they should not be exchangeable for bullion.

His proposals were accepted by the Government of India and were communicated to the Secretary of State† for his sanction. But the Secretary of State, impatient and intolerant of any deviation from a monometallic system, whittled down the whole project with scant courtesy. His reply‡ is a grotesque piece of reasoning and terribly shallow. He was unwilling to allow the measure, because he felt satisfied that the rate of Rs. 10 to a sovereign underrated the sovereign too much to permit its circulation. Here he was on solid ground. The cost of producing a sovereign at a Mint in India was estimated§ at the time to be Rs. 10-4-8 ; while the cost of importing it to Calcutta from England was estimated at Rs. 10-4-10, and from Australia at Rs. 10-2-9. Whichever was the proper rate, it was certain that sovereigns could not circulate at the rate of Rs. 10 to 1. It was

* Cf. his Minute dated June, 20, 1864. *Vide* Papers, etc., on Gold in India p. 147 *et seq*. He was even opposed to holding silver *bullion* in the paper currrency reserve, for this involved on the Currency Department the obligation to get the silver coined, which was a matter of time, having regard to the limited capacity of the Indian Mints at the time, while the notes issued were payable *in coin on demand*. There was a run on the Paper Currency Department, which found itself short of coin.

† Cf. Government of India's Despatch No. 89, dated Simla, July 14, 1864.

‡ Financial Despatch from the Secretary of State, No. 224, dated Setpember 26, 1864.

§ Cf. Letter from the Hon. Claud Brown to the Hon. Sir C. E. Trevelyan, dated Calcutta, May 28, 1864. *Vide* Papers, etc., on Gold, p. 265.

a pity that Sir Charles Trevelyan did not propose a higher ratio* so as to make the circulation of the sovereign an assured event. But the Secretary of State would have been averse to the measure just the same, even if the ratio had been favourable to the sovereign. To the Secretary of State, the measure, based as it was on an unfavourable ratio, was useless. But if based on a favourable ratio it was none the less pernicious, for, it portended the possibility of what he considered as the most vicious system of double standard, however temporary it might have been. The mere contingency of giving rise to a bimetallic system was enough to frighten the Secretary of State into opposition to the whole measure, for he refused to admit that "it may be for the public advantage to pass through a period of double standard in order to change the basis of the currency from silver to gold."

The only concession that the Secretary of State was willing to make was to permit "that gold coin should be received into public treasuries at a rate to be fixed by Government and publicly announced by Proclamation" without making it a general legal tender in India. It will be recalled that this was a revival of that foolish measure which was abandoned in 1852 for having embarrassed the Government. To offer to receive coin which you cannot pay back is to court trouble, and it was to obviate the too-well-known danger inherent in the project that this more complete measure was proposed. But the currency stringency was so great that the Government of India, rather than obstinately cling to their view, consented to avail themselves of the suggestion of the Secretary of State, and issued a Government Notification in November, 1864, which proclaimed that

> "sovereign and half-sovereigns coined at any authorized Royal Mint in England or Australia of current weight, shall until further notice be received in all the Treasuries of British India and its dependencies in payment of sums due to Government, as the equivalent of 10 and 5 Rs. respectively ; and that such sovereigns and half-sovereigns shall, whenever available at any Government Treasury, be paid at the same rates to any person willing to receive them in payment of claims against the Government."

* The reason why he preferred the ratio of 10 to 1 was that that was the prevalent market ratio in India. His argument was that "the sovereign must be rated for circulation in India, not with reference to its English, but to its Indian price estimated in silver." Probably he was unwilling to overrate the sovereign because of his fear that "the existing Indian currency would be rapidly revolutionized and creditors would receive much less than their due." Cf. his Minute dated November 23, 1864 *Vide* Papers, etc. on Gold in India.

The real par, however, was somewhat above Rs. 10 to the sovereign,* and the notification was therefore inoperative. The currency situation, on the other hand, continued to be as acute as ever, and the Government of India was again moved in 1866 by the Bengal Chamber of Commerce to take steps to make the circulation of gold effective. This time the Chamber insisted on the institution of a Commission of Inquiry "as to the expediency of introducing gold into the monetary system of India." But the Government of India held† that " instead of a gold a paper currency has been introduced, in the expectation that it would prove a more convenient and acceptable circulating medium than either of the precious metals," and consequently " it must be shown that paper has not proved and is not likely to prove a circulating medium adequate to the wants and suitable to the habits of the country, before an endeavour is made to introduce gold in supersession of, or in addition to, paper." A commission was therefore appointed to inquire into the "operation of the existing currency arrangements which were established under Act XIX of 1861," and to report as to "what may be the advantage, as based on expediency, of the introduction of the legal tender of gold into India, in addition to that of silver." After an exhaustive investigation, the Commission came to the conclusion‡ that owing to several causes the paper currency had failed to establish itself among the circulating media of the country, but that gold was finding a larger place in the transactions of the people. The Commission ended by urging upon the Government "to cause a legal tender of gold to be a part of the currency arrangements of India." Now it was the turn of the Government to give effect to the recommendation. But, curiously enough, it did not go to the extent of adopting the recommendation of the Commission which it had itself appointed. Instead of making gold legal tender, as advised by the Commission, the only action the Government took was to issue another Notification on October 28, 1868, which simply altered the rate of the sovereign to Rs. 10-8, without doing anything further to avoid the evil consequence attendant upon that one-sided measure. Fortunately for the Government, even this correction of the rate did not induce any flow of gold into

* Cf. Appendix A to the Minute by Sir William Mansfield on Gold Currency for India, H. of C. Return 79 of 1865.

† Resolution in the Financial Department, dated February 3, 1866, in the *Fort William Gazette* of the same date, under Notification No. 592.

‡ For the Report; of the Comission, *see* H. of C. Return 148 of 1868.

the circulation of the country. The currency troubles had by then subsided, and as no new pressure was exerted upon the Government, this proved the last of two abortive attempts the Government made to introduce gold into India.

For the time being, the problem was solved by the natural course of events. But, as subsequent events showed, the change to a gold standard would have been better for India.* and would have been welcomed† in the interests of Europe, which was then suffering from high prices due to the superfluity of gold. At this particular juncture, the Government of India was really at the crossing of ways, and could have averted the misfortunes that were to befall it and its people if it had sided with the forces of change and replaced the silver standard by a gold standard, as it could most easily have done. That those in charge of Indian affairs should have thrown the weight of their authority against the change was no dishonest act deserving of reproach, ‡ but it does furnish one more illustration of those disastrous human ways, which often lead people to regard the situation in which they live as most secure, just when it is most precarious. So secure did they feel about the currency situation that in 1870, when the Mint Law came to be revised and consolidated, they were content, as though nothing had happened or was likely to happen, to allow the silver standard of 1835 to continue pure and unsullied by any admixture of gold.§

Alas ! those, who then said¶ that they were not called upon to take more than a "juridical" view of the Indian currency question, knew very little what was in store for them.

●●

* It is true Prof. J. E. Cairnes was against the introduction of a gold standard in India ; but later he withdrew his objections. Cf. his *Essays in Political Economy* (London, 1873, pp. 88-90).

†Cf. J. R. McCulloch, *Dictionary of Commerce,* Ed. 1869, p. 1131.

‡ Mr. H. B. Russell says that they retained the silver standard because they profited by it on their remittances. Cf. his *International Monetary Conferences,* 1898, p. 32.

§The original Mint and Coinage Bill contained clauses embodying the notification of 1868, compelling the Government to receive sovereigns at Public Treasuries, Cf. *Gazette of India,* Part V, dated July 23, 1870. But such was the degree of indifferences shown that they were afterwards dropped by the Select Committee, which preferred to leave the matter to the discretion of the Executive.

¶ Cf. the speech of the Hon. Mr. Stephen on September 6, 1870, introducing the Coinage and Mint Bill, Vide *Supreme Legislative Council Proceedings* (abbreviated into *S.L.C.P.*), Vol. IX, p. 398.

CHAPTER II

THE SILVER STANDARD AND THE DISLOCATION OF ITS PARITY

It is clear how the evolutionary process with respect to the Indian currency culminated in the establishment of a silver standard and how the agitation for a gold currency ended in the silver standard being supplemented by a paper currency. Before proceeding to inquire into the working of such a mixed system, it would be useful to review briefly the nature of its framework.

The metallic part of it was regulated by Act XXIII of 1870. The coins authorized and legalized thereunder were as shown on p. 379. (Table VIII)

The Act made no innovations either in regard to the number of coins issued by the Mints or their legal-tender powers. Identical though it was with the earlier enactments in the matter of coins,* its juridical provisions were designed to perfect the monetary law of the country as had never been done before. The former Acts which it repealed were very sparing in their recognition of the principle of mint "remedy" or "toleration", as it is called. The point has been largely deemed to be one of mere mint technique. That is so ; but it is not without its monetary significance. When the precious metals were current by weight the question of a mint toleration could not possibly have arisen, for it was open to every one to ascertain the same by weighing the value of his return. But since the invention of coinage, when currency came to be by tale, every one has trusted that the

* This may be seen from the following :—

(a) *Gold Coins,* (i), (ii), and (iii) were authorized by Section VII of Act XVII of 1835. Only (iv) was an addition made by this Consolidating Act of 1870.

(b) *Silver Coins,* (i), (ii), and (iii) were authorized by Section I of Act XVII of 1835. This Act had also authorized the issue of a silver coin called " Double Rupee," but this was discontinued by Section II of Act XIII of 1862, which substituted in its place the silver coin No. iv.

(c) *Copper Coins,* (i), (ii), and (iv) were first authorized by Section I of Act XXI of 1835, which, however, restricted their circulation to the Presidency of Bengal. They were afterwards universalized for the whole of India by Act XXII of 1844. Coin No. (iii) was first introduced by Section II of Act XI of 1854.

TABLE VIII

Denomination of Coins issued by the Mint.	Gross Wt Troy Grs.	Remedy in Weight.	Fineness. Troy Grs.	Remedy in Fineness.	Legal-tender Power.
I. *Gold Coins* (*a*)					
(i) Mohur . .	180	$\frac{2}{1000}$ths	165	$\frac{2}{1000}$ths	
(ii) Third of a Mohur . .	60	"	65	"	Not Legal Tender at all.
(iii) Two-thirds of a Mohur .	120	"	110	"	
(iv) Double Mohur . .	360	"	330	"	
II. *Silver Coins* (*b*) . .					
(i) Rupee	180	$\frac{5}{1000}$ths	165	$\frac{2}{1000}$ths	Unlimited Legal Tender.
(ii) Half-rupee . . .	90	"	82.5	"	
(iii) Quarter-rupee . .	45	$\frac{7}{1000}$ths	41.25	$\frac{3}{1000}$ths	Legal Tender for Fractions of a Rupee only.
(iv) Eighth of a Rupee . .	22.5	$\frac{10}{1000}$ths	20.625	"	
III. *Copper Coins* (*c*)					
(i) Pice	100	$\frac{1}{40}$ths	—	—	Legal Tender for $\frac{1}{64}$th part of a Rupee.
(ii) Double Pice . . .	200	"	—	—	Legal Tender for $\frac{1}{32}$th part of a Rupee.
(iii) Half-pice . . .	50	"	—	—	Legal Tender for $\frac{1}{128}$th Part of a Rupee.
(iv) Pie . . .	33.3	"	—	—	Legal Tender for $\frac{1}{192}$nd Par of a Rupee.

coins contained the value they were certified to contain. The actual value of the coin cannot, however, always be in exact agreement with its certified value. Such differences are bound to exist, and even with all the improvements in the art of coinage it would be difficult to avoid them. What matters is the extent of the deviation from the true mint standard. The mint laws of all countries, therefore contain provisions which declare that coins shall not be legal tender at their certified value if they err from their legal standard beyond a certain margin. Indeed to make coins legal tender without prescribing a limit to their toleration is to open a way to fraud. In so far as the Act laid down a limit of toleration to the coins it authorized to be issued from the Mint, it was a salutary measure. It is to be regretted, however, that the Act instituted no machinery with which to ascertain that the coinage conformed to the law.* Another important improvement made by the Act was the recognition of the principle of free coinage. The principle, though it has not received the attention it deserves, is the very basis of a sound currency in that it has an important bearing on the cardinal question of the quantity of currency necessary for the transactions of the community. Two ways may be said to be open by which this quantity can be regulated. One way is to close the Mint and to leave it to the discretion of the Government to manipulate the currency to suit the needs. The other is to keep the Mint open and to leave it to the self-interest of individuals to determine the amount of currency they require. In the absence of unfailing tests to guide the exercise of discretion necessary in the case of closed Mints, the principle of open Mints has been agreed upon as the superior of the two plans. When every individual can obtain coin for bullion and convert coin into bullion, as would be the case under open Mints, the quantity is automatically regulated. If the increasing demands of commerce require a large amount of circulating medium, it is for the interest of the community to divert a larger quantity of its capital for this purpose ; if, on the contrary, the state of trade is such as to require less, a portion of the coin is

* This machinery is provided in England by what is known as the "Trial of the Pyx." For a history of this in institution and the way it functions, cf. H. of C Return 203 of 1866. During the time of the East India Company the maintenance of the standard purity of the Indian coins always formed a most anxious concern of the Court of Directors. The coins of Indian mintage were regularly required to be sent over to England, where they were tested at a special Trial of the Pyx and the verdict reported back for the future guidance of the Mint Masters in India. Cf. H. of C. Return 14 of 1849. since the winding-up of the Company there is no machinery to bring the Mint Msasters to book.

withdrawn, and applied as any other commodity for purposes other than those of currency. Because the Act of 1870 expressly recognised the principle of open Mint, it is not to be supposed that the Mints were closed before that date. As a matter of fact they were open to the free coinage of both gold and silver, although the latter alone was legal tender. But, strange as it may seem, none of the earlier Acts contained a word as to the obligation of the Mint Master to coin *all* the metal presented to him—a condition which is of the essence of the open mint system. The provisions of the Act on this point are unmistakable. It required :—

> "Section 19. Subject to the Mint-rules for the time being in force, the Mint Master shall receive all gold and silver bullion and coin brought to the Mint:
>
> " Provided that such bullion and coin be fit for coinage.
>
> "Provided also that the quantity so bought at one time by one person is not less, in case of gold, than fifty tolas, and, in the case of silver, than one thousand tolas.
>
> " Section 20. A duty shall be levied at the rate of one rupee per cent, at the Mint on the produce of all gold bullion and on all gold coin brought for coinage to the mint in accordance with the said Mint-rules.
>
> "Section 21. All silver bullion or coin brought for coinage to the Mint, in accordance with the said Mint-rules, shall be subject to a duty at the rate of 2 per cent, on the produce of such from the return to be made to the proprietor.
>
> "Section 22. A charge of one-fourth per mille on gold bullion and coin, and of one per mille on silver bullion and coin, shall also be levied for melting or cutting such bullion and coin so as to render the same fit for receipt into the Mint.
>
> Section 23. All gold and silver bullion and coin brought to the Mint for coinage, and which is inferior to the standard fineness prescribed by this Act, or which, from brittleness or other cause, is unfit for coinage, shall, in case it is refined, be subject, in addition to the duty and charge aforesaid, to such charge on account of the loss and expense of refining as the Governor-General in Council prescribes in this behalf.
>
> "Section 24. The Mint Master, on the delivery of gold or silver bullion or coin into the Mint for coinage, shall grant to the proprietor a receipt which shall entitle him to a certificate from the Assay Master for the net produce of such bullion or coin payable at the General Treasury.

> "Section 25. For all gold bullion and coin, in respect of which the Assay Master has granted a certificate, payment shall be made, as nearly as may be, in gold coins coined under this Act or Act No. XVII of 1835 ; and the balance (if any) due to the proprietor shall be paid in silver, or in silver and copper, coins, in British India."

In the matter of paper currency the Government, it is to be noted, did not proceed upon the principle of freedom of issue, which then obtained in the country. There prevails the erroneous view that before the introduction of the Government paper currency the right of note issue was confined to the three Presidency banks of India. As a matter of fact there existed in India what is called the free banking system, in which every bank was at liberty to issue its notes. It is true that notes of the Presidency banks enjoyed a status slightly superior to that enjoyed by the notes of other banks in that they were received by the Government to some extent in payment of revenue*— a privilege for which the Presidency banks had to submit to a stringent legislative control on their business,† from which other banks whose issues were not so priviliged were immune. But this disadvantage was not sufficient to discourage other banks from indulging in the right of issue which was left open to them by law. However, this freedom of issue does not seem to have

* Cf. F. C. Harrison, *Economic Journal,* 1891, Vol. I, p. 726.

†The reaosns for such control are to be found in the peculiar relationship that subsisted between the Government and the Presidency banks. Prior to 1862, as a safeguard against their insolvency, "the Presidency Bank Charters restricted the kind of business in which they were to engage themselves. Put very briefly the principal restrictions imposed prohibited the banks from conducting foreign-exchange business, from borrowing or receiving deposits payable out of India, and from lending for a longer period than six months, or upon mortgage, or on the security of immovable property, or upon promissory notes bearing less than two independent names, or upon goods unless the goods or title to them were deposited with the banks as security. The Government held shares in the banks and appointed a part of the Directorate. In 1862, when the right of note issue was withdrawn, these statutory limitations on the business of the banks were greatly relaxed, though the Government power of control remained unchanged. But, the banks having in some cases abused their liberty, nearly all the old restrictions of the earlier period were reimposed in 1876 by the Presidency Banks Act, Government, however, abandoning direct interference in the management, ceasing to appoint official directors, and disposing of its shares in the banks. Some of these limitations have been incorporated in Act XLVII of 1920, which amalgamated the three Presidency banks into the Imperial Bank of India. Banks other than Presidency banks have been entirely immune from any legislative control whatsoever, except in so far as they are made amenable to the provisions of the Indian Companies Act. Cf. in this connection Minutes by Sir Henry Maine, No. 47, and the accompanying note by W. Stokes. The control of these banks is one of the important problems of banking legislation in India.

been exercised by any of the banks on any very large scale, not even by the Presidency Banks,* and was taken away from all in 1861,† when there was established a national issue for the whole of India entrusted to the management of a Government Department called the Department of Paper Currency. But if private interest was not allowed to play the same part in determining the quantity of paper currency as was the case with regard to metallic currency, neither was any discretion left to the Government Department in the regulation of the paper currency. The Department of Paper Currency had no more discretion in the matter of paper currency than the Mint Master had in the matter of metallic *currency*.

The Department's duty was confined by law‡ to the issue of notes in exchange for the amount thereof: (1) in current silver coin of the Government of India; (2) in standard silver bullion or foreign silver coin computed according to standard at the rate of 979 rupees per 1,000 tolas of standard silver fit for coinage ; (3) in other notes of the Government of India, payable to bearer on demand of other amounts issued within the same circle ; and (4) in gold coin of the Government of India, or for foreign gold coin or bullion, computed at such ratio and according to such rules and conditions as may be fixed by the Governor-General, provided that the notes issued against gold did not exceed one-fourth of the total amount of issues represented by coin and bullion. The whole of this amount was required by law to be retained as reserve for the payment of notes issued with the exception of a fixed amount which was invested in Government securities, the interest thereon being the only source of profit to the Government. The limit to the sum to be so invested was governed "by the lowest amount to be estimated to which

* It should however, be noted that in 1860 the circulation of notes of the three Presidency banks was larger than their current accounts, as is evident from the following :—

Name of the Bank	Accounts current	Notes in circulation
Bank of Bengal	£ 1,254,875	£ 1,283,946
Bank of Bombay	438,459	765,234
Bank of Madras	161,959	192,291

(Bankers' Magazine, April, 1893, p. 547)

† For a summary of the controversy re.Bank issue *v.* Government issue, see *Report of the Bombay Chamber of Commerce for* 1859-60, Appendix L, pp. 284-318.

‡ Sect. IV of Act XIX of 1861.

according to all reasonable experience, the paper currency might be expected to fall."* Estimating on this basis, the limit to the investment portion was fixed at 4 crores in 1861,† at 6 crores in 1871‡ and at 8 crores in 1890.§ But notwithstanding the growing increase in the investment portion, never was the fiduciary issue based thereon so great¶ as to abrogate the essential principle of the Indian Paper Currency Law, the object of which was to so regulate the volume of paper currency that it should always preseve its value by contracting and expanding in the same manner and to the same extent as its metallic counterpart.

Such was the organisation of the mixed currency that existed in India before it underwent a profound change during the closing years of the nineteenth century. Though of a mixed character, the paper portion formed a comparatively small part of the total. The principal reasons why the paper currency did not assume a large proportion are to be found in the organization of the paper currency itself.§§ One such reason was that the lowest denomination of the notes was too large to displace the metallic currency. By the law of 1861 the denomination of notes ranged upwards from Rs. 10 as the lowest to Rs. 20, 50, 100, 500, and 1,000. In a country where the average range of

* Cf. Sir Richard Temple's speech introducing the Paper Currency Bill, dated March 25, 1870. *Supreme Legislative Council proceedings,* Vol. IX, pp. 151-52.

† Act XIX, Sec. X.

‡Act III, Sec. 16.

§ Act XV, Sec. I.

¶The following table shows the distribution of the paper currency reserve at three different periods :

Period	Note Circulation	Composition of the Reserve				Percentage of each Component of the Reserve to the Total Circulation		
		Silver	Gold	Securities	Total	Silver	Gold	Securities
1862-1871	7.63	4.80	0.03	2.80	7.63	63	…	37
1872-1881	11.82	5.98	…	5.84	11.82	51	…	49
1882-1891	15.74	9.64	…	6.10	15.74	61	…	39

§§ For a clear and concise sketch of the organization of the paper currency in India, *see* the Note of the Government of India in the Report of the U.S. Director, of the Mint, Washington, 1894, pp. 231-33.

transactions did not exceed R. 1 and were as low as 1 anna or even lower, it is impossible to expect that paper currency could, to any great extent, figure in the dealings of the people. Even Rs. 5 notes, the issue of which was first sanctioned in the year 1871,* were not low enough to penetrate into the economic life of the people. The other impediment to the increase of paper currency was the difficulty of encashing notes. One of the infelicitous incidents of the paper currency in India consisted in the fact that they were made legal tender everywhere within a circle, but encashable only at the office of issue. For such a peculiar organization of the paper currency in India, what was largely responsible was the prevalence of internal exchange† in the country. It raised a serious problem for the Government to cope with. If notes were to be made universally encashable it was feared that merchants, instead of using notes as currency, might use them as remittance on different centres to avoid internal exchange, and the Government be obliged to move funds between different centres to and fro, lest it should have to suspend cash payments. To undertake resource operations on such a vast scale between such distant centres when facilities for quick transport were so few, was obviously impossible,‡ and the Government therefore decided to curtail the encashment facilities of notes it issued. For the purposes of the paper currency, the Government divided the country into a number of circles of issue, and each currency circle was further subdivided into sub-circles,§ and the notes issued bore on their face the name of the circle or sub-circle

*See. 3 of Act III.

† It may be pointed out that although the Presidency banks had ceased to issue notes, yet under the agreements made with the Government in virtue of Act XXIV of 1861 the banks were employed by the Government "for superintending, managing and becoming agents for the issue, payment and exchange of promissory notes of the Government of India, and for carrying on the business of an agency of issue" on a renumeration of 3¾ per cent, per annum "on the daily average amount of Government currency notes outstanding and in circulation through the agency of the bank." In the conflict that ensued between the Government of India and the Secretary of State because it believed that it would help the extension and popularization of the notes as to the propriety of thus employing the banks, the former was in favour of the plan, while the latter disliked the arrangement because it seemed to him to compromise the principle of complete separation between the business of issue and the business of banking. Neither of the two, however, grasped the fact that the profit on remittances on different centres owing to the prevalence of internal exchange was so great that the commission allowed to the banks was an insufficient inducement to cause them to promote the circulation of notes by providing facilities at their branches for the free encashment of them. So high was the internal exchange, and so reluctant seemed the banks to popularize the notes, that Government finally discharged them from being their agents for paper currency from January 2, 1866. *See* House of Commons Return, East Indian (Paper Money) 215 of 1862.'

‡ Cf. the speech of the Hon. Mr. Laing on the Paper Currency Bill dated February 16, 1861, *S.L.C.P.,* Vol. VII, pp. 73-74.

§ Each sub-circle had within it a number of agencies of issue ; but the agencies were centres not of encashment but only of issue.

from which they originated. Notes issued from any agency of issue situated in the territory comprised within a circle of issue were not legal tender in the territory of any other currency circle, nor were they encashable outside their own circle. Nay more, the notes issued from sub-circles subject to the same chief circle were legal tender in one another's territory, but were not encashable except at their office of issue or at the issue office of their chief circle. The sub-circle notes could thus be cashed at two places, but the notes of the issue office of the chief circle, though legal tender in the entire territory covered by it, were encashable nowhere except at its own counter, not even at any of its own sub-circles.* This want of universal encashability, though it saved the Government from the possibility of embarrassment, proved so great a hindrance to the popularity of the notes that it may be doubted whether the paper currency could have made a progress greater than it did even if the lowest denomination of the notes had been lower than it actually was.

It must, however, be borne in mind that it was not the intention of the Indian Legislature to make the Indian currency as economical† as was desired by the Executive Government. The Legislature was no doubt appealed to by the original author of the paper *currency* to turn India into a new Peru, where as much currency could be had with as little cost‡ but the Legislature showed a rather prudent reserve on the matter of aiding the consummation of such a policy. As the centres of encashment were so few, and the area included within each so large as to separate the furthest point in a circle by a distance of about 700 miles from the centre of encashment of the circle, it viewed with dread the authorizing of notes of smaller denomination

* For the inconveniences of the "circle" system and the various measures contemplated by Government to facilitate the encashment of notes, see *Report of the Bombay Chamber of Commerce for* 1868-69, Appendix, pp. 309-16.

† Cf. the whole speech of the Hon. Mr. Sconce dated September 22, 1860, *S.L.C.P.,* Vol. p. 1143 *et seq.*

‡Cf. the speech of Mr. Wilson, the originator of paper currency in India, dated March 3, 1860, where he says : " In short, to abstract so much coin from the mere mechanical purpose of the circulation, supplying its place with convertible paper, would be exactly the same in effect as if suddenly, in the centre of the Maidan, a rich silver mine had been discovered which produced silver at little or no cost." *Supreme Legislative Council Proceedings,* Vol. VI, p. 250.

which the poor could not refuse and yet could not cash.* Besides the hardship involved in the want of encashability in the notes, the Legislature feared they would prove a " fugitive treasure" in the hands of the Indian peasant. Not being able to preserve them from rain and ants, he might have had to pay a heavy discount to be rid of the notes he could have been forced to accept †. So opposed was the Legislature to the economizing clauses of the Paper Currency Bill as contrived to drive out metallic currency that it gave the Government an option to choose between legal-tender notes but of higher denomination and lower-denomination notes but of no legal-tender power. ‡ And as the Government chose to have legal-tender notes, the Legislature in its turn insisted on their being of higher denomination. At first it adhered to notes of Rs. 20 as the lowest denomination, though it later on yielded to bring it down to 10, which was the lowest limit it could tolerate in 1861. Not till ten years after that, did the legislature consent to the issue of Rs. 5 notes, and that, too, only when the Government had promised to give extra legal facilities for their encashment.§ On the whole, the desire of the Indian Legislature was to make the Indian currency safer, rather than economical, and such it undoubtedly was.

How did the currency system thus constituted work ? Stability of value is one of the prime requisites of a good currency system. But if we judge the Indian currency from this point of view, we find that there existed such variations in its value that it is difficult to escape the conclusion that the system was a failure.

Taking the rate of discount as an evidence of the adequacy of currency for internal commerce, it was the opinion of such a high financial authority as Mr. Van Den Berg that the unexpected contortions and sudden transitions in the Indian money market were unparalleled in the annals of any other money market in any other part of the world¶. India is

*Cf. the speeches of the Hon. Mr. Forbes, dated July 13, 1861, *S.LC.P.* 1154.

† Cf. the speech of the Hon. Mr. Forbes, dated July 13, 1861. *Supreme Legislative Council Proceedings,* Vol. VII, p. 768.

‡ Cf. speech of the Hon. Mr. Scone, September 22, 1880, *S.L.C.P.,* Vol. VI, p. 1151.

§ For such extra facilities, and measures adopted to materialize them, Cf. the interesting speech of the Hon. Sir Richard Temple on the Paper Currency Bill dated January 13,1871, *S.LC.P.,* Vol. X, pp. 22-25.

¶ *The Money Market and Paper Currency of British India,* Batavia, 1884, p. 3.

pre-eminently a country subject to seasonal swings.* Mid-summer is naturally a period of diminished activity, while autumn brings renewed vigour in all activities of social and economic life. Not production alone is affected by seasons. On the side of consumption, Indian social life is also subject to seasonal variations. There are marriage season, holiday seasons and holy seasons. Even distribution has assumed in India quite a seasonal character. The practice of paying rents, wages, dividends, and settling accounts at stated intervals has been gaining ground as a result of contact with Western economic organization. All these generate a kind of rhythm in the social demand for money, rising at certain periods of the year and falling at others. Having regard to the seasonal character of the economic and social life, the fluctuations caused by the discount rate soaring high during busy months when it should have been low enough to liquidate the transactions, and falling low during

* It should be noted that the slack and the busy seasons are not uniformly distributed over the whole surface of the country. The distribution is roughly as follows :—

Months	Eastern India		Western India Bombay and Karachi	Northern India		Southern India Madras
	Rangoon	Calcutta		Cawnpore	Lahore	
Busy	3 Months	4 Months	6 Months	6 Months	9 Months	6 Months
Slack	9 Months	8 Months	6 Months	6 Months	3 Months	3 Months
January	Busy	Slack	Busy	Slack	Busy	Slack
February	”	”	”	Busy	”	Busy
March	”	”	”	”	”	”
April	Slack	”	”	”	”	”
May	”	”	Slack	Slack	”	”
June	”	”	”	”	”	”
July	”	”	”	”	Slack	”
August	”	Busy	”	”	”	Slack
September	”	,,	”	Busy	”	”
October	”	,,	”	”	Busy	”
November	”	,,	Busy	”	”	”
December	”	Slack	”	Slack	”	”
Busy	Jan. to March	Aug. to Nov.	Nov. to April	Feb. to April	April to June	Feb. to July
Slack	April to Dec.	Dec. to July	May to Oct.	May to Aug.	July to Sept.	April to Dec.
Busy	...	...	...	Sept. to Nov.	Octo. to March	...
Slack	...	...	...	Dec. to Jan.		...

slack months when it should have been high enough to prevent the market from being demoralized, are unavoidable. But what made the contortions of the Indian money market so obnoxious was the circumstance that the seasonal fluctuations in the discount rate were so abnormal.*

The explanation for such a market phenomenon is to be . sought in the irregularity of the money supply of the country. In order that money may be had at a uniform price, its supply should be regulated according to the variations in the demand for it. It is well to recognize that the demand for money is never fixed. But it will avail nothing until it is realized that the changes in the demand for money which take place from year to year with the growth of population, trade, etc., belong essentially to a different category from the fluctuations in the demand for money which occur within the course of a year owing to seasonal influences. In any well-regulated currency it is necessary to distinguish these two categories of changes in monetary demand, the one requiring steadiness and expansibility and the other elasticity. On a comparative view it seems more than plausible that a metallic money is as especially adapted to furnish this element of steadiness and stability as paper money is to furnish that of elasticity. Indeed, so appropriate seem to be their respective functions that it has been insisted† that in an ideal system, these two forms of money cannot interchange their functions without making the currency burdensome or dangerous. The proof of the soundness of this view, it may be said, is found in the fact that, excluding the small transactions which take place by direct barter, the purchasing medium of any commercially advanced country is always a compound of money and credit.

*The rate of discount of the Bank of Bengal for private paper running thirty days and after was altered—

In	1876	16	times,	with	6½	per cent,	as	minimum and	13½	per cent.	as maximum.
”	1877	21	”	”	7½	”	”	”	14½	”	”
”	1878	10	”	”	5½	”	”	”	11½	”	”
”	1879	15	”	”	6½	”	”	”	11½	”	”
”	1880	8	”	”	5½	”	”	”	9½	”	”
”	1881	9	”	”	5½	”	”	”	10½	”	”
”	1882	9	”	”	6½	”	”	”	12½	”	”
”	1883	14	”	”	7½	”	”	”	10½	”	”

(*Van Den Berg, loc. cit.*)

†Cf. Prof. R. P. Falkner in *A Discussion of the Interrogatories of the Monetary Commission of the Indianapolis Convention,* 1898, Publications of the University of Pennsylvania in Political Economy and Public Law, No. 13, pp. 25-26.

On the face of it, the Indian currency is also a compound of money and credit, and as such it may be supposed that it contained provisions for expansibility as well as elasticity. But when we come to analyse it we find that it makes no provision whatever for elasticity. Far from allowing the credit part of it to expand and contract with the seasonal demands, the Paper Currency Act placed a rigid limit upon the volume of its issue regardless of any changes in the volume of the demand. Here, then, is to be found one of the causes for the "convulsions" in the discount rates prevalent in the Indian money market. As was pointed out by Mr. Van Den Berg :—

> "The paper currency established by the Indian legislator fully answers the purpose, so far as business requires an easier means of exchange than gold or silver coin ; but no connection whatever exists between the issue of the fiduciary currency and the wants of the public to have their bills or other commodities converted into a current medium of exchange.......... and this is the sole cause of the unexpected convulsions and sudden transitions in the money market so utterly detrimental to business to which the British Indian trade is constantly exposed."*

It may, however, be objected that such a view is only superficial. The Indian Paper Currency Act is a replica of the English Bank Act of 1844 in all its essentials. Like the English Bank Act, it set a definite limit to the fiduciary issue of notes. Like it, it separated the Issue Business from the Banking Business,† and if it made the banks in India mere banks of discount, it is because it copied the Bank Charter Act, which deprived banks in England, including the Bank of England, from being banks of issue. And yet, it cannot be said that the English money market is affected by such "convlusions and sudden transitions" as has been the case with the Indian money market.

* Op. cit., p. 7.

† The Indian Paper Currency Act carried the principle of separation further than did the English Bank Charter Act. It not only prevented the Issue Department being conducted under the aegis of a Banking Department, but also disallowed the two being housed under the same roof. Such an ideal of separation was held out by Sir Charles Wood during the debate on the Bank Charter Act. Cf. *Hansard Parliamentary Debates,* Vol. LXXIV, p. 1363. Though he was then disappointed he did not fail to realize his ideal when he became the Secretary of State for India.

On the other hand, it was the considered opinion of Jevons* that "the Bank of England and bankers generally have just the same latitude in increasing or diminishing their advances now (i.e. under the Act of 1884) as they would have under a [n un] restricted system"; for, as he elsewhere argued, if the limitation on fiduciary issue is arbitrary, and if people want more money, " it is always open to them to use metallic money instead. The limitation is imposed not upon money itself, but upon the representative part."† What, then, is the reason that the Indian Paper Currency Act should produce the evils which its English prototype did not ? *A priori* there need be no such convulsions in a money market subject to such law. The Act, by limiting the isue of notes, did seem to leave no choice but to use metallic money even for seasonal demand. This would be true if notes were the only form in which credit could be used. As a matter of fact, this is not so. Credit could take the form of a promise to pay, issued by a bank, as well as it could take the form of an order on the bank to pay, without making any difference to the social economy of the people who used them. Consequently, if under the provisions of the Act banks are restricted from issuing promises to pay, it does not follow that the only way open to them is a resort "to use metallic money instead," for they are equally free to consent to honour as many orders to pay as they like. Indeed, the success or failure of the Act depends upon which of the two alternatives the banks adopt. It is obvious that those who will submit to the ruling of the Act and resort to metallic money will have to bear the "convulsions," and those who will circumvent the Act by utilizing other forms of credit will escape them. The chief reason, then, why the Act has worked so well in England and so badly in India, is due to the fact that, whereas English banks have succeeded in implanting the order or cheque system of using credit in place of the note system, Indian banks have unfortunately failed. That they should have failed was however, inevitable. A cheque system presupposes a literate population, and a banking system which conducts its business in the vernacular of the people. Neither of these two conditions obtains in India. The

*Cf. his Essay on the "Frequent Autumnal Pressure in the Money Market and the Action of the Bank of England," *Investigations in Currency and Finance* (ed. Foxwell), 1884, p. 179. Italics by Jevons. There is, however, an apparent misprint in the original, which at the close of the quotation reads " as they would have under a restricted system."

† *Money and the Mechanism of Exchange,* Kegan Paul, London, 1890, p. 225.

population is mostly illiterate, and even were it otherwise it could not have availed itself of the cheque system, because Indian banks refuse to conduct their business in any other medium but English. Besides, the growth of the cheque system presupposes a widespread network of banks, a condition which is far from being fulfilled in India. In the absence of banking, a cheque is the worst instrument that could be handled. If not presented within a certain time, a cheque may become stale and valuless, and is therefore inferior to a note as a store of wealth. In such circumstances as these, it is no wonder that in India cheques did not come into being on a sufficiently large scale to amend the inelasticity of the notes.

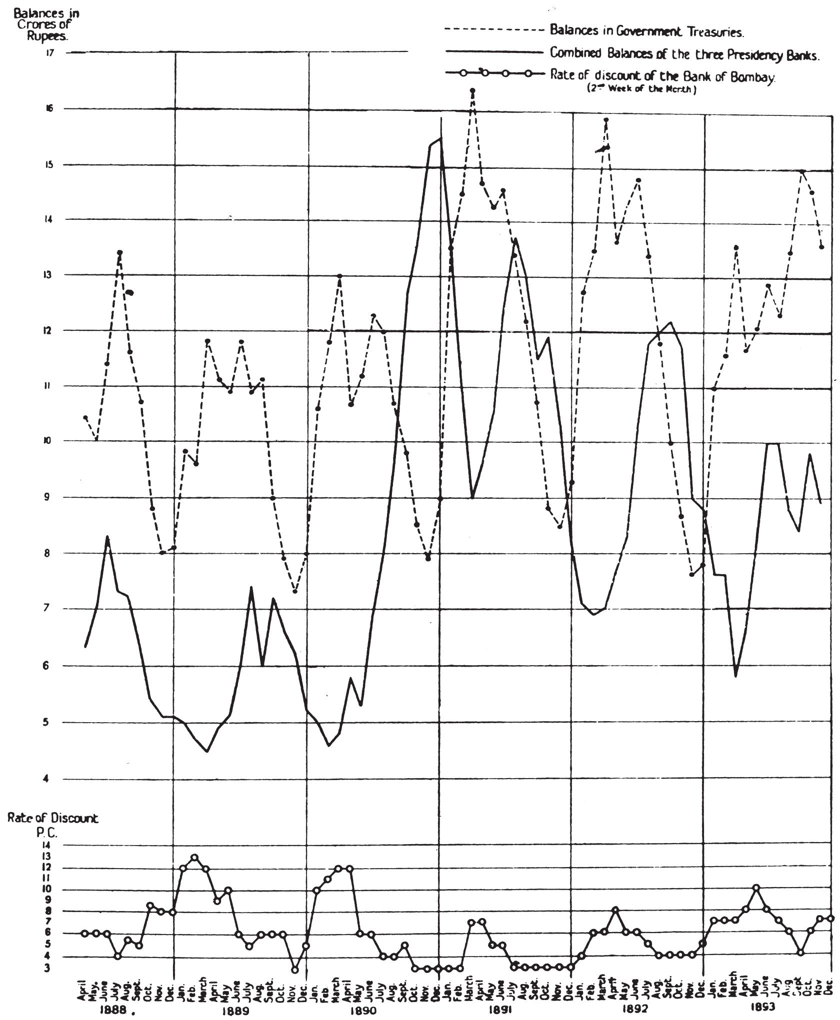
But even if Indian banks had succeeded in making use of credit in a form other than that of notes, they could not have eased the money market to the same extent as the English banks have been able to do. One of the incidents of banking consists in the liability of banks to pay cash on demand. If all their deposits were received in cash this liability would involve no risk. As a matter of fact, a larger part of their deposits consists of bills which they make it their business to undertake to pay in cash. One of the first things, therefore, that a banker has to look to is the proportion which his cash deposits bear to his credit deposits. Now, this proportion may be adversely affected either by an increase in his credit deposits or by diminution in his cash deposits. In either case his ability to pay cash is *pro tanto* weakened by lowering the ratio of his total cash to his total liabilities. Against an undue expansion of credit a banker may effectually guard himself. But, notwithstanding the development of the cheque system, there is always lurking the possibility of withdrawal of some cash at some time or other. A banker must, therefore, provide by keeping on hand a certain minimum reserve. How large should be the reserve depends upon what the possibilities for the withdrawal of cash are. The point is that to the extent of the reserve the power of the bank to grant credit is curtailed. If the reserve of the bank is already at the minimum it must stop discounting or must strengthen its position by recovering the cash withdrawn from its coffers. Now, it is obvious that if the amount of money withdrawn is kept in the current of business where the banks can get at it, they of course can strengthen their position again immediately, and not only always keep themselves well away from the danger line of minimum reserve, but be always prepared to meet the needs of the money market. What was the position of the Indian banks from this point of view? Owing to the absence of a cheque system the possibilities for the withdrawal of cash are great, and the reserve was required to be large in consequence thereof. A large part of their funds being thus held for a reserve, their resources for discounting were small. But there was a further weakening of their position as lenders by reason of the fact that the cash withdrawn did not speedily return to them. The result was that the Indian banks were obliged to curtail their discounts to a far greater extent than were the English banks, in order to preserve a due proportion between their cash and their credits. The absence of branch banking was an important desideratum in this regard. But, even if there were branch banks, the money withdrawn could not have returned, for it was not left in the current channels of business. It was locked up in Government treasuries, whose operations were independent of the banking transactions of the country. Of course, there could be nothing inherently wrong in the maintenance by a Government of an Independent Treasury, and if its operations were to have a resultant connection with the operations of the business community no harm need arise. But the operations of the Indian Treasury ran counter to the needs of business. It locked up when it should have released its hoards, and released its hoards when it should have locked them up.

The causes that "convulsed" the Indian money market had therefore been the inelasticity of the credit media and the working of the Independent Treasury System in so far as they were the prime factors affecting the money supply of the country (see Chart I). The evil effects of such convulsions of the discount rate can hardly be exaggerated.* In an economy in which almost every business man must rely, at certain seasons, if not all the year round, on borrowed capital, the margin of profit may be wiped out by a sudden rise or augmented by a sudden fall in the rate of discount leading to under-trading or over-trading. Such fluctuations increase business risks, lead to higher business expenses and a greater cost to the consumer. They bring about swings in prices, promote speculation, and prepare

*For American experience, cf. E. W. Kemmerer, "Seasonal Variations in the New York Money Market," in *The American Economic Review,* March 1911.

CHART I

Discount Rates in India



for panics. Evils such as these would have in any other country compelled the authorities to take proper steps to deal with them. But it is a curious fact that in India no serious attempts were made to alleviate the sufferings they inflicted upon the trading community. A reform of the paper currency or the abolition of the Independent Treasury System would have eased the situation, though a reform of both would have been better. The general community, however, was not desirous for a change of the paper currency,* but was anxious for the abolition of the Independent Treasury. The Government, on the other hand, refused to do away with its Independent Treasury System,† and repudiated even its moral obligation to help the business

* Cf. *India in* 1880, by Sir Richard Temple, p. 469 ; Sir Charles Wood's *Administration of Indian Affairs,* p. 89 ; also *The Indian Statesman,* January 15 (1884).

†It should, however, be noted that between 1862 and 1876, at some centres comprising the head offices and branch offices of the Presidency banks, the Independent Treasury System was suspended. By way of compensation for the loss of their right of note issue, the Presidency banks were given certain concession by the Government under agreements entered into in accordance with Act XXIV of 1861. Among the concessions one was the use by the banks of Government balances. The first agreement, that of 1862, conceded to the banks the following privileges in regard to the Government balances : (1) The unrestricted use for banking purposes " of all moneys and balances which but for the agreement would have been received or held at the General Treasury " up to the limit of 70 lakhs in the case of the Bank of Bengal, 40 lakhs in the case of the Bank of Bombay, and 15 lakhs in the case of the Bank of Madras. (2) The option of setting aside the excess over these sums in a separate strong room for production when demanded, or of investing it in Government paper or other authorized securities, the power of investment being subject to the condition that the banks should be "at all times answerable and accountable to Government for the surplus cash balance for the time being." (3) The right to interest from Government on the difference between the actual balance and 50 lakhs in the case of the Bank of Bengal, 30 lakhs in the case of the Bank of Bombay, and 10 lakhs in the case of the Bank of Madras, whenever the balances at these banks fell below these minima. (4) Permission to the banks to use the Government balances at their branches on similar terms, suitable limits being fixed in each case, as in the head office agreements.

A year after the agreements were executed, difficulties arose with the Bank of Bengal, which had locked up the funds to such an extent that it was unable to meet the demands of the Government on the public balances it held. Negotiations were therefore opened in 1863 for the revision of the agreements, and the revised agreements came into force on January 2,1866. They contained the following provisions regarding the public balances : (1) Undertaking by Government to maintain in the hands of the banks at their head offices an "average cash balance" of 70 lakhs at the Bank of Bengal, 40 lakhs at the Bank of Bombay, and 25 lakhs at the Bank of Madras, "so far as the same may conveniently be done." (2) Permission to the banks to use the whole balances for the time being deposited with them for banking purposes. (3) The right to interest from Government when the Government balance at the head offices of the Bank of Bengal, Bank of Bombay, and Bank of Madras fell below the minima of 45 lakhs, 25 lakhs, and 20 lakhs respectively. (4) Permission to employ" the whole of the balances (at branches) however large for the time being "for banking purposes, subject to the condition that each branch should" at all times be ready to meet the drafts of the Government" to the extent of the Government balances at the branch.

community on the somewhat pedantic plea that in locking up currency it did not lock up capital.* Nor is it possible to say, since it was not called upon to enunciate a policy, how far it would have gone to modify the Paper Currency Act so as to relieve the situation. Before, however, this controversy could end in a satisfactory solution for imparting to the currency system that element of elasticity which it needed, there developed another and a greater evil, which affected its metallic counterpart in a degree sufficient to destroy its most vital element of steadiness and stability of value, which it was its virtue to furnish. So enormous did the evil grow, and so pervasive were its effects, that it absorbed all attention to the exclusion of everything else.

These revised agreements were to remain in force till March, 1, 1874. In 1874 the question of the revision of the charters of the Presidency banks was under consideration, and it was the aim of the Government to continue to the banks the right to use the whole Government balances. Just at this time (1874) difficulties occurred with the Bank of bombay and the government could not draw upon their balances. This led to a reconsideration of the policy of merging the Government balances with the bank balances and leaving them in the custody of the banks. After a somewhat lengthy discussion the Government of India reverted to the system of Independent Treasury by instituting what were called Reserve Treasuries at the headquarters of the Presidencies which held the Government balances previously held by the Presidency banks. For a history of this episode see House of Commons Returns 109 and 505 of 1864 ; also J. B. Brunyate, *An Account of the Presidency Banks,* Chap. VII.

*In the despatch of May 6, 1875, sanctioning the re-establishment of the Independent Treasury System, the banks were admonished by the Secretary of State thus :" Capital supplied by Government, and not representing the savings of the community, is a resource on whose permanence no reliance can be placed, and which therefore tends to lead traders into dangerous commitments. It gives ease for a time, and produces prosperity which is at the mercy of an accident. A political exigency suddenly withdraws the adventitious resources, and the commerce which trusted to it finds itself pledged beyond what its own resources can make good." Under the arrangements of 1876 leading to the establishment of the Reserve Treasuries, the Government agreed as before to pay interest to the banks when their balances at the banks fell below certain minima. The Government entered into no formal undertaking as regards maxima, and gave the banks to understand "that the Government will ordinarily not leave with the headquarters of the banks, otherwise than temporarily, more than the following sums ; Bank of Bengal 100 lakhs, Bank of Madras 30 lakhs, and Bank of Bombay 50 lakhs. But this condition will not be inserted in the contract, which will impose no obligation upon the Government to leave any balances whatever with the banks........... The Government will not undertake to give to the banks the exclusive custody of all the public balances where the Government banks with the banks." The question of the amount of balances which the Government would have with the banks in the *ordinary* course being thus settled, the only way left open to give help to the banks to meet seasonal demands was to grant loans to the Presidency banks for its balances held in the Reserve Treasuries. After 1900 it agreed to make such loans of a limited amount at the bank rate. Up to 1913 only six loans were made, which shows that the terms of such loans were rather onerous. The Chamberlain Commission of 1913 recommended loans rather than the abolition of the Independent Treasury system. The war, however, hastened the course of events. It proved the necessity of co-operation between the Presidency banks and the Government, and also the need of a large and powerful Banking Institution. This was accomplished by the amalgamation of the Presidency banks into an Imperial Bank of India (Act XLVII of 1920), with the inauguration of which the Independent Treasury system is again in the process of abolition. For a history of episodes of the Independent Treasury after 1876, see Appendices to the *Interim Report of the Chamberlain Commission,* Vol. I, Cd. 7070 of 1913, Nos. I and II.

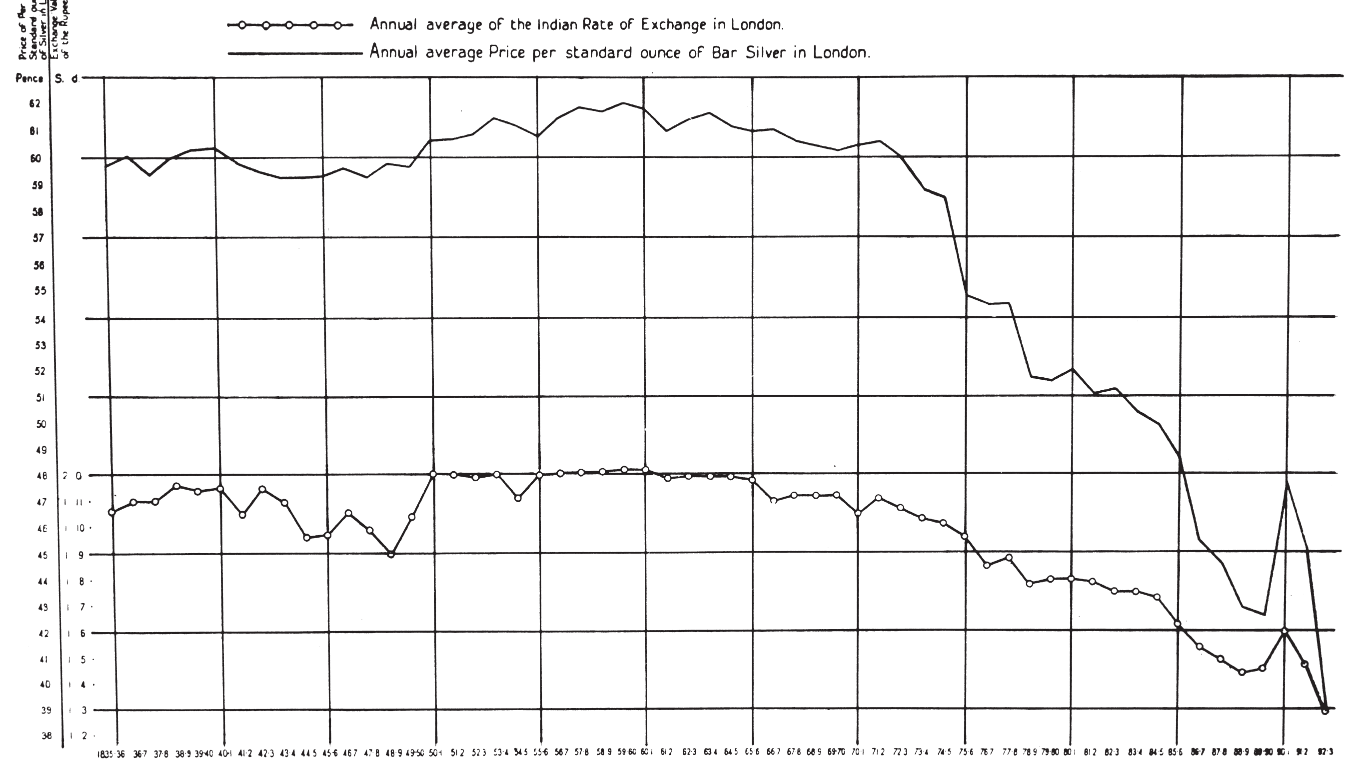
What fixity of value between the different units of its currency is to the internal transactions of a country, a par of exchange is to its internal transactions. A par of exchange between any two countries expresses the relative exchange values of their respective currencies in terms of each other. It is obvious from this that the par of exchange between any two countries will be stable if they employ the same metal functioning as their standard money, freely convertible into and exportable as bullion, for in that case they would have as a measure of value a common medium, the value of which could not differ, given freedom of commerce, in the two countries by more than the cost of its transhipment, i.e., within specie points. On the other hand, there can be no fixed par of exchange between two countries, having different metals as their currency standards of value. In that case, their exchange is governed by the relative values of gold and silver, and must necessarily fluctuate with changes in their value relation. The limit to the exchange fluctuations between them will be as wide or as narrow as the limit to fluctuations in the relative values of the two metals may happen to be. When, therefore, two countries such as England and India are separated by differences in their metallic standards, theoretically there could be no possibility for a stable par of exchange between them. But, as a matter of fact, notwithstanding the difference in their metallic standards, the rate of exchange between England and India seldom deviated* from the normal† rate of 1 s. 10½ *d.* for R. 1. So steady was the rate up to 1873 that few people were conscious of the fact that the two countries had different currency standards. After 1873, however, the rupee-sterling exchange suddenly broke loose from this normal parity, and the dislocation it caused was so great and so disorderly (Chart II) that no one knew where it would stop.

*It appears, however, from the chart that the rupee-sterling exchange before 1873 was not quite stable. But the fluctuations in it are to be attributed to quite a different set of factors. It should be noted that the rates of exchange used for reducing the Indian moneys into sterling during the time of the East India Company had been various : moreover, they had so little relation to the intrinsic value of the coins exchanged that the actual rates officially given were far from the actual market rates. As having a bearing on this interesting subject, consult H. of C. Sessional Papers 735 II of 1931-32 ; Appendix No. 20, *Correspondence, etc., relating to the rates of exchange at which the currencies of India are converted into sterling* ;also Tucker, H. St. George, *Remarks on the Plans of Finance, 1821,* passim, and *Memorials of Indian Government,* 1853, by the same, pp. 382-85.

†Normal only if 15½ to 1 be taken as the normal ratio between gold and silver, which was the case for nearly seventy years.

CHART II

FALL OF THE RUPEE-STERLING EXCHANGE



The rupee-sterling exchange was in reality a reflection of the gold-silver exchange. When, therefore, it is said that the rupee-sterling before 1873 was stable at 1s. 10½ *d*., it merely meant that the gold-silver exchange before 1873 was stable at the ratio of 1 to 15½ ; and that the rupee-sterling exchange was dislocated after 1873 meant that the gold-silver exchange lost its old moorings. The question which therefore arises is why was the ratio of exchange between gold and silver disturbed after 1873, as it never was before that year ? Two factors have been appealed to as affording a sufficient explanation of what then appeared as a strange phenomenon. One was the demonetization of silver as the standard money medium by the principal countries of the world. This movement in favour of demonetization of silver was the outcome of an innocent agitation for uniformity of weights, measures, and coinages. In so far as the agitation was aimed at such uniformity, it was in every way beneficial. But it also exemplifies how the pursuit of good sometimes leaves behind a legacy of evils. At the Great Exhibition held in London in 1851 the great difficulty of comparing the different exhibits, owing to the differences of weights, measures, and coinages as between the countries of their origin and other countries, was amply demonstrated to the representatives of the different nations assembled at that exhibition.* The question of international uniformity in weights, measures, and coins was discussed by the various scientific assemblies gathered at this exhibition, and although nothing tangible came out of it, the question was not allowed to be dropped : it was taken up at the Brussels International Statistical Congress held two years after. Opinion had so far advanced that the next Statistical Congress, held at Paris, issued a declaration, which was confirmed by the Vienna Statistical Congress of 1859, strongly urging the necessity of bringing about the desired uniformity in the weights, measures, and coinages of different countries.† Encouraged by the action of England, which had made in 1862 the metric system of weights and measures optional, the 1863 International Statistical Congress of Berlin resolved to invite the different Governments " to send to a special Congress delegates authorized to consider

* *Report of the Royal Commission on International Coinage,* 1868, p. v.

† Cf. Russell, H. B., *International Monetary Conferences,* 1998, pp. 18-25.

and report what should be the relative weights in the........gold and silver coins, and to arrange the details by which the monetary systems of the different countries might be fixed, upon a single unit decimally subdivided."* The significance of this Congress can hardly be overlooked. It made a departure. At the former Congresses the question debated was largely one of uniformity in weights and measures. But at this Congress " that phase of it was subordinated to uniform coinage and was well-nigh laid aside."† Though the resolution was a departure, it should not have been fraught with serious consequences if the reform had been confined to the question of uniformity of coinage. But there occurred a circumstance which extended its application to the question of currency. When this agitation for uniform coinage grew apace, the French quite naturally wished that their coinage system, which had already been extended over the area comprised by the Latin Union, should be taken as a model to be copied by other countries outside the Union in the interest of uniformity. With this end in view the French Government approached the British Government of the time, but was told in reply that the British Government could not consider the suggestion until France adopted the single gold standard.‡ Far from being taken aback, the French Government, then so anxious to cultivate the goodwill of England, proved so complacent that it felt no compunction in conceding to the British the pre-requisite it demanded, and indeed went so far out of the way, when the Conference met in Paris in 1867, that it actually manoeuvred§ the Assembly into passing a resolution "that for uniform international coinage it was necessary that gold alone should be the principal currency of the world." So much importance was attached to the question of uniformity of coinage that those who passed the resolution seemed not to have noticed what sacrifice they were called upon to make for its achievement. Perhaps it would be more correct to say that they did not know that they were affecting by their decision the currency system of the world. All they thought they were doing at the time was to promote uniformity of coinage and nothing

*Quoted by Russell, op. cit., p. 25.

† Russell, loc. cit.

‡ Cf. evidence of Prof. Foxwell, Q. 23,876, Royal Commission on Agricultural Depression in England, 1892.

§ For which cf. Russell, op., p. 46.

more.* But whatever the extenuating circumstances, the result was disastrous, for when the resolution came to be acted upon by the different countries assembled, the real end of the Conference, namely uniformity of coinage, was completely lost sight of, and the proposed means eventually became the virtual end.

The ball once set rolling, the work of demonetizing silver began to grow apace. First in the field was Germany. Having vanquished France in the war of 1870, she utilized the war indemnity in the reform of her chaotic currency† by hastening to adopt a gold currency for the United Empire of Germany. The law of December 4, 1871, authorized the change, with the mark as the unit of currency. Silver was demonetized by this enactment; but the existing silver coins continued to be legal tender though their further coinage was stopped, along with the new gold coins at the legal ratio of 15 to ½ to 1. This full legal-tender power of the silver coins was taken away from them by the law of June, 9, 1873, which reduced them to the position of a subsidiary currency.‡ This policy was immediately copied by other countries of Germanic culture.§ In 1872 Norway, Sweden, and Denmark formed a Scandinavian Monetary Union, analogous to the Latin Monetary Union, by which they agreed to demonetize silver as was done by Germany. This treaty, which established a gold standard and reduced the existing silver currency to a subsidiary status, was ratified by Sweden and Denmark in 1873 and by Norway in 1875. Holland also followed the same course. Till 1872 she had a pure silver standard. In that year she closed her Mint to the free coinage of silver, although the old silver money continued to be legal tender to any amount. In 1875 she went a step further and opened her Mints to the free coinage of gold. Her policy differed from that of the Germanic countries in that she only suspended the free coinage of silver, while the latter had demonetized it. Even the Latin Union was unable to resist this tide against silver. As a consequence of this exclusion of silver, the Latin Union,

*An honourable exception must be made in the case of Dr. Mees, the representative of Holland, who drew attention to the harm likely to result from this resolution.

† For a history of the movement for the unification of German currency prior to 1870, cf. H.P. Willis, " The Vienna Monetary Treaty of 1857," in the *Journal of Political Economy,* Vol. IV, p. 187 *ett seq*.

‡ For the text of the Laws, see Appendix to *History of Bimetallism,* by Prof. J. L. Laughlin, New York, 1886.

§ Cf. *Report of the Committee on the Depreciation of Silver,* 1876, p. xxix.

enlarged as it was by additional members, naturally desired to take precautionary measures against being flooded by the influx of this depreciated silver. Nor was this fear unfounded, for the silver tendered for coinage at the Belgian Mint in 1873 was three times greater than what was tendered in 1871. Rather than be embarrassed, Belgium, by the law of December 8, 1873, suspended the free coinage of her silver five-franc pieces. This action of Belgium forced the hands of the other members of the Union to adopt similar measures. The delegates of the Union met in Paris in January, 1874, and

> "agreed to a treaty supplementary to that originally framed in 1865, and determined on withdrawing from individuals the full power of free coinage by limiting to a moderate sum the silver five-franc pieces which should be coined by each State of the Union during the year 1874.*

The respective quotas fixed for 1874 were slightly increased in 1875, but were reduced in 1876.† But the actual coinage did not even reach these small quotas. So greatly was the Union perturbed by the silver situation that during 1877 the coinage of silver five-franc pieces was, with the exception of Italy,‡ entirely suspended. This action was, however, only a preliminary to the treaty of November 5, 1878, by which the Latin Union agreed to close its Mints to the free coinage of silver till further action. Though at first *sine die,* the closure proved in the end perpetual.§ Simultaneously with the precautionary measures of the Latin Union, Russia suspended, in 1876, the free coinage

* Laughlin, op. cit., p. 155.

† The quotas fixed at the Conferences for the several members of the Union were :—

In Millions of Francs.

			1874	1875	1876
France	...	...	60	75	54
Belgium	...	...	12	50	36
Italy	...	...	40	15	10
Switzerland	...	...	8	10	7
Greece	...	...	...	...	...
			120	150	110

In 1874 Italy was allotted an extra 20 million francs. *Ibid.,* p. 155.

‡She was allowed to coin 10 millions of them.

§ *Ibid., p.* 158.

of silver except to such an amount as was necessary for the purposes of her trade with China,* and the Imperial Decree of November 22, 1878, directed that all customs duties above 5 roubles and 15 copecks should be payble in gold.† Austria in like manner suspended the free coinage of silver in 1879.‡

On the other side of the Atlantic, an important event had taken place in the United States. In 1870 that Government resolved to consolidate the Mint laws, which had not been revised since 1837, in a comprehensive statute. Since the legislation of 1853, the silver dollar was the only coin which the United States Mints coined freely. But in the new consolidated Mint Statute of 1873, the silver dollar was deleted from the list of coins to be issued from the Mint, so that it virtually amounted to suspension of the free coinage of silver in the United States.§ The silver dollars previously coined continued to circulate as full legal tender, but that power was taken away by the law of June, 1874, which declared that "the silver coins of the United States shall be a legal tender at their nominal value for any amount not exceeding five dollars in any one payment."

The other factor appealed to in explanation of the dislocation of the relative values of gold and silver was the great increase in the production of silver as compared to gold.

TABLE IX

RELATIVE PRODUCTION OF GOLD AND SILVER

(Ounces)

Period	Total	Production	Annual Average Production		Index Number for Average Annual Production	
	Gold	Silver	Gold	Silver	Gold	Silver
1493-1600	24,266,320	734,125,960	224,693	6,797,463	100	100
1601-1700	29,330,445	1,197,073,100	293,304	11,970,731	130,5	176,1
1701-1800	61,088,215	1,833,672,035	610,882	18,336,720	271,8	269,7
1801-1840	20,488,552	801,155,495	512,217	20,028,887	227,9	293,1
1841-1870	143,186,224	931,091,326	4,772,876	31,038,378	2,124,1	456,6
1871-1890	106,950,802	1,715,039,955	5,347,545	85,751,998	2,375,4	1,261,5

**Report of the Directors of the Mint,* Washington, 1893, p. 23.

† Cf. P. Willis," Monetary Reform in Russia," in the *Journal of Political Economy,* Vol. V, p. 291.

‡ Cf. F. Wieser, "Resumption of Specie Payment in Austria-Hungary," in Journal of Political Economy, Vol. 1, pp. 380-7.

§ This measure was the subject of a strange controversy. The gold men argued that it was deliberately adopted, while the silver men decried it as a surreptitious act due to a "combination of rascally contrivance and rascally connivance." Prof. Laughlin has well cleared the mystery surrounding this Act. He shows by reference to debates in Congress on the legislation of 1853 that Congress knew that by refusing to alter the ratio between gold and silver it was placing the country on a gold standard. Too much consideration, he thinks, has been wasted on the Act of 1873, which merely took legal notice of the consequences of the Act of 1853. Cf. his *History of Bimetallism,* pp. 80 and 93-95.

The history of the production of the precious metals in modern times begins from the year 1493, a date which marks the discovery of the American continent. Reviewing the results of the production from 1493 to 1893, a period in all of 400 years, we find that during the first hundred years the production of gold and silver rises at a uniform rate of progression. Assuming the annual average production of each during the first century (1493-1600) in the modern history of their production to be 100, it will be seen that in the next century (1601-1700) the index number for the production of gold rises to 130 and that of silver to 176. This rate of progression is also kept up in the succeeding century (1700-1800), during which the figure for both gold and silver approximates to 270, and continues without much disturbance up to 1840, when the respective index numbers stood at 228 for gold and 293 for silver. From this point onwards, the relative production of the two metals underwent a complete revolution. During the next thirty years (1841-70) the production of gold reached unprecedented heights, while that of silver lagged behind, relatively speaking. The index number for silver production advanced only to 450, but that for gold went up to 2,124. This revolution was followed by a counter-revolution, as a result of which the position as it stood at the end of 1870 was well-nigh reversed. The production of gold received a sudden check, and though it had increased enormously between 1840-70 it remained stationary between 1870-93. On the other hand, the production of silver, which was steady between 1841-70, increased threefold between 1870-93, so that the index number for its average annual production during the latter period stood at 1,260.

In the controversy which arose over the reasons, which brought about this dislocation and decline in the value of silver in terms of gold, there were parties to whom one of these two factors was a sufficient cause. One side argued that had suspension or demonetization of silver not taken place, its value could never have fallen. This position was vehemently challenged by the other side, which believed in the over-supply of silver as the primary cause of its depreciation. Now, was the argument from relative over-supply sufficient to account for the fall in the gold value of silver ? On the face of it, the explanation has the plausibility of a simple proposition. It is one of the elementary theorems of political economy that the value of a thing varies inversely with its supply, and if the supply of silver had largely increased, what could be more natural than that its value in terms of gold should fall ? The following were the relevant facts which formed the basis of the argument:—

TABLE X

Gold and Silver*

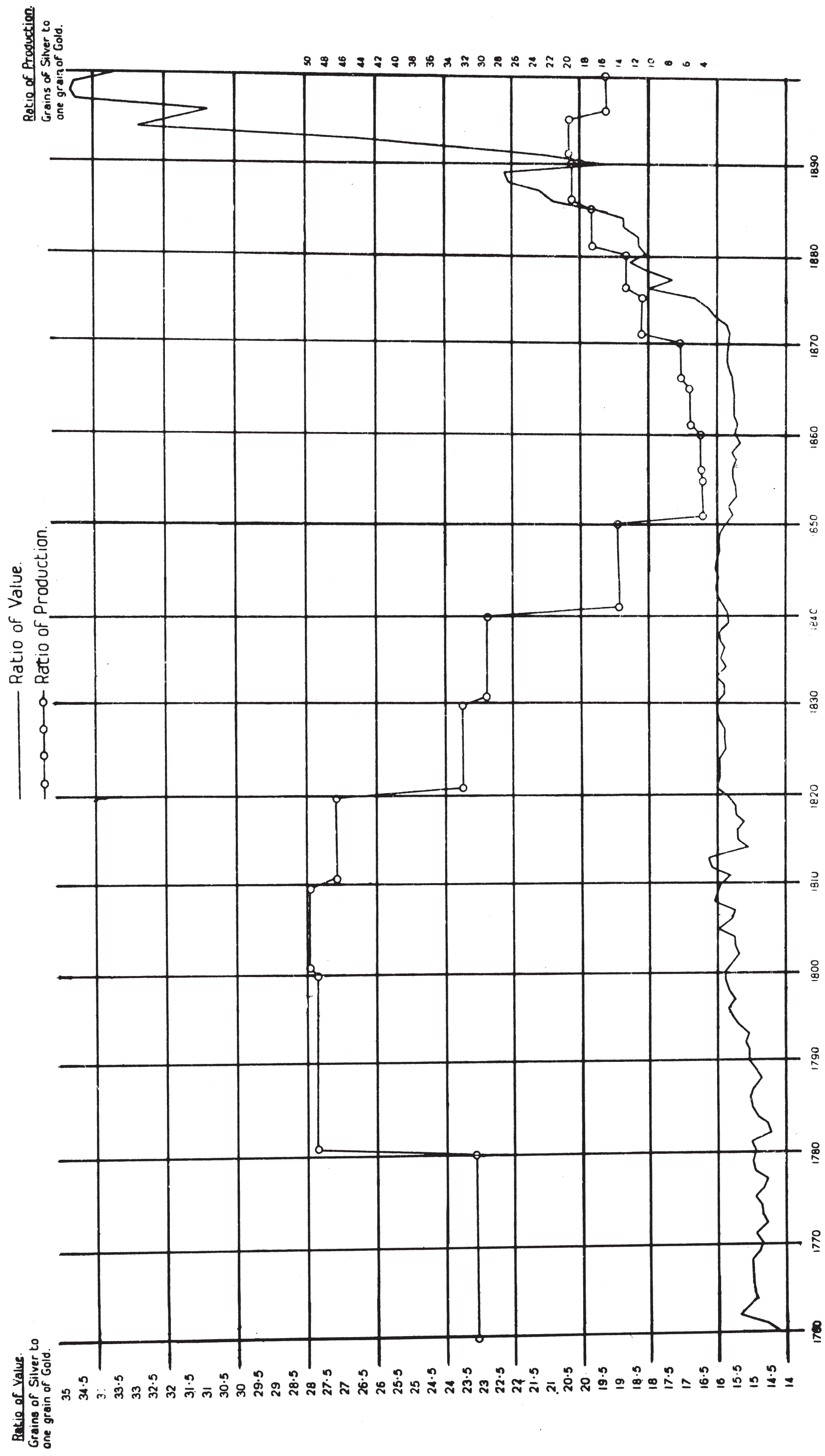
Relative Production and Relative Value

Period	Ratio of Production (by Weight) of Gold to Silver As 1 Grain to:	Ratio of value of Gold to Silver As 1 Grain to	Index Number for the Ratio of Production	Index Number for the Ratio of Value	Correlation between Relative Production and Relative Value	
					Relative Production of Silver Falls — Rises+	Relative Value of Silver Falls — Rises+
1681-1700	31.8	14.95	100	100	. . .	. . .
1701-1720	27.7	15.21	87	101.7	–13	–1.7
1721-1740	22.6	15.10	71	101	– 29	–1.0
1741-1760	21.7	14.70	67	98.3	–33	+1.7
1761-1780	31.5	14.40	99	96.3	– 1	+3.7
1781-1800	49.4	15.08	155.6	100.8	+55.6	–.8
1801-1810	50.3	15.67	158.0	104.8	+58.0	–4.8
1811-1820	47.2	15.68	148.0	104.9	+48.0	–4.9
1821-1830	32.4	15.82	101.9	105.8	+1.9	–5.8
1831-1840	29.4	15.77	92.4	105.4	–7.6	–5.4
1841-1850	14.2	15.81	44.6	105.8	–55.4	–5.8
1851-1855	4.4	15.45	13.8	103.3	–86.2	–3.3
1856-1860	4.5	15.28	14.0	102.2	–86.0	–2.2
1861-1865	5.9	15.42	18.55	103.1	–81.5	–3.1
1866-1870	6.9	15.52	21.7	103.8	–78.3	–3.8
1871-1875	11.3	16,10	35.5	107.6	–64.5	–7.6
1876-1880	13.2	17.79	41.5	119.0	–58.5	–19.0
1881-1886	17.3	18.81	54.4	125.8	–45.6	– 25.8
1886-1890	19.9	20.98	62.6	140.3	–37.4	–40.3
1891-1895	20.0	26.75	62.9	178.9	–37.1	–78.9

* The table is based on figures of M. de Foville of the French Mint, as given by Mr. F. B. Forbes in *The Bimetallist* of July, 1897, pp. 125-28.

CHART III

RELATIVE VALUES AND RELATIVE PRODUCTION OF GOLD AND SILVER



The facts thus presented led to two conclusions. The first is that the supposed enormous increase in the relative production of silver was an assumption which had no foundation in reality. On the contrary, a glance at the figures for relative production discloses the curious fact that since the beginning of the eighteenth century silver, instead of rising, has been falling in proportion. With the exception of the first quarter of the nineteenth century, silver had formed, throughout the two centuries covered by the table, a diminishing proportion as compared with gold.* Indeed, never was the proportion of silver so low as it was in the latter half of the nineteenth century, and even when after 1873 it began to grow it did not reach half the magnitude it had reached in the beginning of the eighteenth century. The second conclusion which these facts were claimed to sustain was that the value of silver in terms of gold did not move in sympathy with its supply relative to that of gold. According to theory, the value of silver should have been rising because the relative volume of its production had been diminishing. On the other hand, a closer examination of the figures of relative values and relative productions, as given in the foregoing table, instead of showing any close correlation (*see* Chart III) between them, pointed to the contrary. Instead of supply and value being inverse in proportion, it showed that as its supply was falling there was also a fall in its value. Such being the facts of history, it was contended that they gave no support to those who rested their case on over-supply rather than on demonetization as a sufficient explanation for the depreciation of silver.

Apart from such minor points, the issue was considerably narrowed by the peculiarity of the events of the twenty years preceding and following the year 1873.† Compare, it was said, the period commencing with 1848 and ending with the year 1870 with the period following 1870, and there emerges the arresting fact that these two periods, though they have been the opposite

* In view of this, it is a matter of some surprise that such an eminent economist as Prof. W. Lexis should have ceased to be bimetallist on the ground that the enormous increase of silver militated against the establishment of a permanently high ratio with gold. Cf. his essay on " The Present Monetary Situation," in the *Economic Studies of the American Economic Association,* 1896, Vol. I, No. 4, pp. 273-77. The habit of measuring the production of silver in terms of value is no doubt largely responsible for this quite unfounded notion.

† Cf. H. S. Foxwell, "Bimetallism : Its Meaning and Aims," in *The* (*Oxford*) *Economic Review* (1893), Vol. III, p. 302.

of each other with reference to the relative values of the two metals, were alike with reference to the changes in their relative supply. The period between 1870 and 1893 on the side of relative production was marked by the preponderance of silver. The period between 1848 and 1870 is an exact parallel to the above period with respect to changes in the relative supply of the two precious metals, only in this case it was gold that had increased in volume. Now, if it is over-supply that governed the value relations of the two metals in the second period (1870-93) the same should be true of their value relations in the first period (1848-70). Was there, then, a disturbance in the relative values of the two metals in the first period anything like what took place in the second period ? It was insisted that the disturbance in the ratios of production of the two metals in the first period was enormously greater than that which occurred in the second period. Indeed, comparatively speaking, the disturbance in the second period was nothing to speak of. And yet their relative value during the first period was well-nigh constant at the ratio of 1 to 15½, while in the second it fluctuated between 16.10 and 26.75. Those, who argued that the value of silver fell after 1873 because of its over-supply, were thus faced with the problem as to why the value of gold did not fall when its supply had become so abundant before 1873. The whole controversy was therefore centred into the question as to what could have made this difference in the two situations ? If the colossal increase in the production of gold in the first period did not raise the value of silver by more than 2 per cent., how was it that a comparatively insignificant rise in the relative production of silver in the second period led to such an enormous rise in the price of gold ? What was the controlling influence present in the one case which was absent in the other ? Those who held that it was demonetization of silver that was responsible for its depreciation argued that, though alike in every way, the two periods differed in one important particuar. What distinguished them was the fact that in the former it was a common practice to define the standard money of a country as a certain quantity of gold *or* a certain quantity of silver. Prior to 1803 the two metals were rated differently in different countries,*but since that date the rating of 1 to 15½ became more uniform, with the result that the monetary standard throughout that period was either 1 gr. of gold *or* 15½ grs. of

* For these ratios, see Appendix, Table B, to *A Colloquy on Currency,* by H. H. Gibbs.

silver. On the other hand, during the second period, the "*or*" which characterized the first period was deleted by the silver-demonetizing and suspending decrees. In other words, the first period was characterized by the prevalence of bimetallism under which the two metals could be used inter-changeably at a fixed given ratio. In the second period they could not be so used owing to the fact that the fixed ratio necessary for interchange had been abrogated. Now, could the existence or non-existence of a fixed ratio be said to be such a powerful influence as to make the whole difference that set the two periods in such marked contrast ? That this was the factor which made the whole difference was the view of the bimetallists. It was said that, by virtue of the monetary system prevalent during the first period, gold and silver were rendered substitutes and were regarded as "one commodity of two different strengths." So related, the conditions of supply had no effect upon their ratio of exchange, as would have been the case in respect of a commodity without a substitute. In the case of commodities which are substitutes, the relative scarcity of one can give it no greater value in terms of the other than that defined by their ratio of exchange, because by reason of the freedom of substitution the scarcity can be made good by the abundance of the other. On the other hand, the relative abundance of one cannot depreciate its value in terms of the other below the ratio of exchange, because its superfluity can be absorbed by the void created in consequence of a paucity of the other. So long as they remain substitutes with a fixed ratio of substitution, nothing originating in demand or supply could disturb their ratio. The two being one commodity, whatever changes take place in the demand or supply of either system beyond the needs of commerce express themselves in the price level exactly as though one of them alone was the money medium ; but their ratio of exchange will be preserved intact in any case

In support of this was cited the authority of Jevons, who said*:—

> " Whenever different commodities are thus applicable to the same purposes their conditions of demand and exchange are not independent. Their mutual ratio of exchange cannot vary much for it will be closely defined by the ratio of their utilities. Beef and mutton differ so slightly that people eat them almost indifferently. But the wholesale price of mutton, on

* *Theory of Political Economy,* 4th ed./, 1911, pp. 134-36.

an average, exceeds that of beef in the ratio of 9 to 8, and we must therefore conclude that people generally esteem mutton more than beef in this proportion, otherwise they would not buy the dear meat...... So long as the equation of utility holds true, the ratio of exchange between mutton and beef will not diverge from that of 8 to 9. If the supply of beef falls off people will not pay a higher price for it, but will eat more mutton ; and if the supply of mutton falls off, they will eat more beef...... We must, in fact, treat beef and mutton as one commodity of two different strengths—just as gold at 18 carats and gold at 20 carats are hardly considered as two but rather as one commodity, of which twenty parts of one are equivalent to eighteen of the other.

"It is upon this principle that we must explain, in harmony with Cairnes' views, the extraordinary permanence of the ratio of exchange of gold and silver, which from the commencement of the eighteenth century up to recent years never diverged much from 15 to 1. That this fixedness of ratio did not depend entirely upon the amount or cost of production is proved by the very slight effect of the Australian and Californian gold discoveries, which never raised the gold price of silver more than about $4^2/_3$ per cent., and failed to have more than a permanent effect of 1½ per cent. This permanence of relative values may have been partially due to the fact that gold and silver can be employed for exactly the same purposes, but that the superior brilliancy of gold occasions it to be preferred, unless it be about 15 or 15½ times as costly as silver. Much more probably, however, the explanation of the fact is to be found in the fixed ratio of 15½ to 1, according to which these metals are exchanged in the currency of France and some other continental countries. The French Currency Law of the year XI established an artificial* equation—

Utility of gold = 15 ½ X utility of silver

* It is this artificiality of the bimetallic system which unfortunately befogs the minds of some people and prejudices those of others. Some do not understand why the price determination of two commodities used as money should be so different from the price determination of any other two commodities as to be governed by a ratio fixed by law. Others are puzzled as to why, if gold and silver are a pair of substitutes, should they require a legal ratio while other pairs of substitutes circulate without a legal ratio, merely on the basis of the ratio of their utility. These difficulties are well explained away by Prof. Fisher thus :

and it is probably not without some reason that Wolowski and other recent French economists attributed to this law of replacement an important effect in preventing disturbance in the relations of gold and silver."

But granting that before 1873 the ratio was preserved owing to the compensatory action of the bimetallic law, can it be said that it would have been maintained after 1873 if the law had not been suspended ? To give an uncompromising affirmative as the bimetallists did is to suppose that bimetallism can work under all conditions. As a matter of fact, though it is workable under certain conditions it is not workable under other conditions. These conditions are well described by Prof. Fisher.* The question under bimetallism is whether the market ratio

"......two forms of money differ from a random pair of commodities in being substitutes. Two substitutes proper are regarded by the consumer as a single commodity. Thus lumping together of the two commodities reduces the number of demand conditions, but does not introduce any indeterminateness into the problem because the missing conditions are at once supplied by a *fixed ratio of substitution.* Thus if ten pounds of cane sugar serve the same purpose as eleven pounds of beet-root sugar, their fixed ratio of substitution is ten to eleven......... In these cases the fixed ratio is based on the relative capacities of the two commodities to fill a common need, and is quite antecedent to their prices...... The substitution ratio is fixed by nature, and in turn fixes the price ratio.

"In the single case of money, however, there is no fixed ratio of substitution...... We have here to deal not with relative sweetening power, nor relative nourishing power, nor with any other capacity to satisfy wants—no capacity inherent in the metals and independent of their prices. We have instead to deal only with relative *purchasing* power. We do not reckon a utility in the metal itself, but in the commodities it will buy. We assign their respective desirabilities or utilities to the sugars...... before we know their prices, but we must inquire the relative circulating value of gold and silver before we can know at what ratio we ourselves prize them. To us the ratio of substitution is incidentally the price ratio. The case of the two forms of money is unique. They are substitutes, but have no natural ratio of substitution, dependent on consumers' preferences.

" The foregoing considerations...... are overlooked by those who imagine that a fixed legal ratio is merely superimposed upon a system of supply and demand already determinate, and who seek to prove thereby that such a ratio is foredoomed to failure...... the...... analogy...... is unsound ......Gold and silver ...... are not completely analogous even to two substitutes because for two forms of money there is no consumers' natural ratio of substitution. There seems, therefore, room for an artificial ratio......"—*Purchasing Power of Money,* 1911, pp. 376-77

* *Elementary principles of Economics,* 1912, pp. 228-29. In the illustrations given by Prof. Fisher he appears, although he does not mean it, to make the success or failure of bimetallism hang upon the question whether *or* not the two metals are maintained in circulation. For in the illustration which he gives to show the failure of bimetallism—Fig. 14 (b)—his film *f* shows gold to be entirely thrown out of circulation ; while in the illustration he gives to show the success of bimetallism—Fig. 15 (b)—his film *f* shows gold to be only partially thrown out of circulation. But there seems to be no reason to suppose that there cannot be a third possibility, namely, that while the position of the film is *f* is as in Fig. 14 (b)—a possibility in which bimetallism succeeds although one of the two metals is entirely pushed out of circulation. For the success of bimetallism it is not necessary that both the metals should remain in circulation. Its success depends upon whether or not the compensatory action succeeds in restoring the relative values of the two bullions to that legally established between the two coins. If it succeeds in achieving that, the ratio would be preserved even if the compensatory action drives one metal entirely out of circulation.

between gold and silver bullion will always be the same as the legal ratio between gold and silver coins freely minted and possessing unlimited legal-tender power. Now supposing the supply of silver bullion has increased relatively to that of gold bullion, the result will obviously be a divergence in the mint and the market ratio. Will the compensatory action of the bimetallic law restore the equilibrium ? It may succeed in doing it or it may not. If the increase in the supply of silver bullion and the decrease in that of gold bullion are such that a decrease in that of silver caused by its inflow into the currency and an increase in that of gold caused by its outflow from currency can restore them to their old levels as bullion, bimetallism would succeed ; in other words, the market ratio of the two bullions would tend to return to the mint ratio. But if the increase in the supply of silver bullion and the decrease in that of gold is such that the outflow of silver bullion into currency reduces the level of the silver bullion to the old level, but the outflow of gold bullion from currency does not suffice to raise the level of the gold bullion to the old level, or if the outflow of gold from currency raises the level of the gold bullion to the old level, but the inflow of silver into currency does not result in the reduction of the level of silver bullion to its old level, bimetallism must fall; in other words, the market ratio of the two bullions will remain diverted from the mint ratio legally established between their coins.

Under which of these two possibilities could the circumstances arising after 1873 have fallen ? That is a question about which no one can say anything definitely. Even Jevons, who admitted the success of the bimetallic law in the earlier period, was not very sanguine about its success in the latter period. It was he who observed*

> " that the question of bimetallism is one which does not admit of any precise and simple answer. It is essentially an indeterminate problem. It involves several variable quantities and many constant quantities, the latter being either inaccurately known or, in many cases, altogether unknown......"

* *Investigations,* etc. (ed. Foxwell), p. 317.

Nonetheless, it is certain that the divergence between the mint ratio and the market ratio under a bimetallic system must be smaller than may be the case where there is no bimetallic systgem. Whenever the market ratio diverges from the mint ratio the compensatory action under the bimetallic law tends to restore the equilibrium, and even where it fails in restoring it, it does succeed in abridging the gulf between the two ratios. That being the case, it is safe to argue that had there been no demonetization of silver after 1873 the ratio between gold and silver would have probably been preserved as it was during the monetary disturbances of the earlier period. At any rate, this much is certain, that the market ratio between the two metals could not have diverged from the mint ratio to the extent it actually did.*

It is therefore a sad commentary on the monetary legislation of the seventies that if it did not actually help to create, for no purpose, a problem unknown before, it certainly helped to make worse a bad situation. Prior to 1870, not all countries had a common currency. There were India and countries of Western Europe which were exclusively on a silver basis, and others, like England and Portugal, which were exclusively on a gold basis, and yet none of them felt the want of a common standard of value in their mutual dealings. So long as there existed the fixed-ratio system in France and the Latin Union the problem was really provided for, for under it the two metals behaved as one and thereby furnished a common standard, although all countries did not use the same metal as their standard money. It was therefore a matter of comparative indifference to most countries which metal they used so long as there was some one country which used either at a certain defined ratio. With the destruction of this fixed ratio what was thus a matter of comparative indifference became a matter of supreme concern. Every country which had before enjoyed the benefits of a common international standard without having a common currency was faced with a crisis in which the choice lay between

* Fisher, *Purchasing Power of Money,* 1911, pp. 134-35.

sacrificing its *currency* to securing a common standard or hugging its currency and foregoing the benefits of a common standard. That exigencies of a common standard ultimately led to its accomplishment was as it should have been, but it was not a fact before a great deal of harm and some heavy burdens had brought home to people what the want of it really meant to them.

CHAPTER III

THE SILVER STANDARD AND THE EVILS OF ITS INSTABILITY

The economic consequences of this rupture of the par of exchange were of the most far-reaching character. It divided the commercial world into two sharply defined groups, one using gold and the other using silver as their standard money. When so much gold was always equal to so much silver, as was the case previous to 1873, it mattered very little, for the purposes of international transactions, whether a country was on a gold or on a silver standard ; nor did it make any difference in which of the two currencies its obligations were stipulated and realized. But when, owing to the dislocation of the fixed par, it was not possible to define how much silver was equal to how much gold from year to year or even from month to month, this precision of value, the very soul of pecuniary exchange, gave place to the uncertainties of gambling. Of course, all countries were not drawn into this vortex of perplexities in the same degree and to the same extent, yet it was impossible for any country which participated in international commerce to escape from being dragged into it. This was true of India as it was of no other country. She was a silver-standard country intimately bound to a gold-standard country, so that her economic and financial life was at the mercy of blind forces operating upon the relative values of gold and silver which governed the rupee-sterling exchange.

The fall increased the burden of those who were under an obligation to make gold payments. Amongst such, the most heavily charged was the Government of India. Owing to the exigencies of its political constitution, that Government has been under the necessity of making certain payments in England to meet: (1) interest on debt and on the stock of the guaranteed railway companies ; (2) expenses on account of the European troops maintained in India; (3) pensions and non-effective allowances payable in England; (4) cost of the home administration*; and (5) stores purchased in England for use or consumption in India. England being a gold-standard country, these payments were necessarily gold payments. But the revenues of the Government of India out of which these payments were met were received in silver, which was the sole legal-tender money of the country. It is evident that even if the gold payments were a fixed quantity their burden must increase *pari passu* with the fall in the gold value of silver. But the gold payments were not a fixed quantity. They have ever been on the increase, so that the rupee cost of the gold payments grew both by reason of the growth in their magnitude, and also by reason of the contraction of the medium, i.e. the appreciation of gold, in which they were payable. How greatly this double levy diminished the revenues of India, the figures in Table XI give a convincing testimony.

TABLE XI

Increase in the Rupee Cost of Gold Payments†

Financial Year	Average Rate of Exchange for the Year	Total Excess of Rupees needed to provide for the net Sterling Payments of the Year over those required to meet the Sterling Payments of 1874-75	Amount of this Excess due to	
			(1) Fall in the Rate of Exchange over that of 1874-75	(2) Increase in gold payments over those of the Year 1874-75
	s. d.	R	R	R
1875-76	1 9.626	86,97,980	41,13,723	45,84,257
1876-77	1 8.508	3,15,06,824	1,44,68,234	1,70,38,590
1877-78	1 8.791	1,30,05,481	1,14,58,670	1,15,46,811
1878-79	1 7.794	1,85,23,170	1,04,16,718	81,06,452
1879-80	1 7.961	39,23,570	1,65,37,394	-1,26,13,824
1880-81	1 7.956	3,12,11,981	1,92,82,582	1,19,29,399
1881-82	1 7.895	3,18,19,685	1.98,76,786	-1,19,42,899
1882-83	1 7.525	62,50,518	1,86,35,246	2,48,85,764
1883-84	1 7.536	3,44,16,685	2,33,46,040	1,10,70,645
1884-85	1 7.308	1,96,25,981	2,48,03,423	51,77,442
1885-86	1 6.254	1,82,11,346	2,54,95,337	-4,37,06,683
1886-87	1 5.441	4,69,16,788	4,46,68,299	22,48,489
1887-88	1 4.898	4,63,13,161	4,96,60,537	- 33,47,376
1888-89	1 4.379	9,00,38,166	6,59,71,998	2,40,66,168
1889-90	1 4.566	7,75,96,889	6,06,98,370	1,68,98,519
1890-91	1 6.090	9,06,11,857	4,65,48,302	4,40,63,555
1891-92	1 4.733	10,44,44,529	6,54,52,999	3,89,91,530

* Since the Reform Act of 1920 that part of this cost which was "political" has been placed upon the British Estimates.

† Compiled from figures in Appendix II, p. 270, of the Indian Currency Committee of 1843.

The effect of such a growing burden on the finance of the Government may well be imagined ; the condition of the Government, embarrasing at first, later became quite desperate under this continuously increasing burden. It enforced a policy of high taxation and rigid economy in the finances of the Government. Analysing the resource side of the Indian Budgets from the year 1872-73, we find that there was hardly any year which did not expire without making an addition to the existing imposts of the country. In 1872-73, there commenced the levy of what were called Provincial Rates. The fiscal year 1875-76 witnessed the addition of R. 1 per gallon in the excise duty on spirits. In 1877-78 the Pass Duty on Malwa opium was raised from Rs. 600 to Rs. 650 per chest. An addition of a Licence Tax and Local Rates was made in the year 1878-79, and an increase of Rs. 50 per chest took place in the Malwa Opium Duty in the following year. With the help of these imposts the Government expected to place its finances on an adequate basis. By the end of 1882, it felt quite secure and even went so far as to remit some of the taxes, which it did by lowering the customs duties and the Patwari Cess in the North-Western Provinces. But the rapid pace in the fall of the exchange soon showed that a resort to further taxation was necessary to make up for the increased cost of the sterling payments. To the existing burdens, therefore, was added in 1886 an Income Tax, a duty of 5 per cent. on imported and also on non-illuminating petroleum. The Salt Duty was raised in 1888 in India from Rs. 2 to Rs. 2½ and in Burma from 3 annas to R. 1 per maund. The Patwari Cess of the North-Western Provinces, repealed in 1882, was re-imposed in 1888. The rates of duty on imported spirit and the excise duties on spirits were not only raised in 1890, but were afterwards added to in every province. An excise duty on malt liquor was levied in 1893, and another on salted fish at the rate of 6 annas per maund. The yield of the taxes and duties levied from 1882-83 was* as follows:—

Sources	1882-83	1892-93
	Rs.	Rs.
Salt	5,67,50,000	8,14,90,000
Excise	3,47,50,000	4,97,90,000
Customs	1,08,90,000	1,41,80,000
Assessed Taxes	48,40,000	1,63,60,000

* *Report of the Indian Currency Committee,* 1893, App. II, p. 263.

All this additional burden was due to the enhanced cost of meeting the gold payments, and "would not have been necessary but for the fall in the exchange."*

Along with this increase of resources the Government of India also exercised the virtue of economy in the cost of administration. For the first time in its history, the Government turned to the alternative of employing the comparatively cheaper agency of the natives of the country in place of the imported Englishmen. Prior to 1870, the scope of effecting economy along this line was *very* limited. By the Civil Service Reforms of 1853† the way was cleared for the appointment of Indians to the posts reserved by the Statute of 1793† for the members of the covenanted Civil Service. But this reform did not conduce to any economy in the cost of the administration, because the Indian members carried the same high scale of salaries as did the English members of the Civil Service. It was when the Statute of 1870 (33 Vic. c. 3) was passed permitting the appointment by nomination of non-covenanted Indians to places reserved for the covenanted Civil Service on a lower scale of salary, that a real scope for economy presented itself to the Government of India. Hard pressed, the Government of India availed itself of the possibilities for economy held out by this statute. So great was the need for economy and so powerful was the interest of the Government in reducing its expenditure that it proceeded, notwithstanding increased demands for efficient administration, to substitute the less expensive agency of non-covenanted civilians in place of the more expensive agency of the convenanted civilians. The scale on which this substitution was effected was by no means small, for we find that between 1874 and 1889 the strength of the convenanted service recruited in England was reduced by more than 22 per cent., and was further expected to be reduced by about 12 per cent., by the employment of unconvenanted Indians to the posts usually reserved for covenanted civilians.§ Besides substituting a cheap for a dear agency in the administration, the Government also sought to obtain relief by applying the pruning knife to the rank growth in departmental

* J.E.O'Conor, *Report of the Indian Currency Committee,* 1898, App. II, p. 182.

† Cf. *Report of the Public Service Commission,* C 5327 of 1887.

‡ This provision of the Act has been re-enacted by the Act of 1861.

§ Cf. evidence of Mr. Jenkins, Q. 12. Mil. of Evid. of the Select Committee on East India (Civil Servants), H. of C. 327 of 1890.

extravagences.* Even with such heroic efforts to increase the revenue and reduce the expenditure the finances of the Government throughout the period of the falling exchange were never in a flourishing state, as is shown in Table XII.

Much more regrettable was the inability of the Government, owing to its financial difficulties, to find money for useful public works. The welfare of the Indian people depends upon turning to best account the resources which the country possesses. But the people have had very little of the necessary spirit of enterprise in them. The task, therefore, has fallen upon the Government of India to provide the country with the two prime requisites of a sustained economic life, namely a system of transport and a network of irrigation. With this object in view the Government had inaugurated a policy of developing what were called "Extraordinary Public Works," financed by capital borrowings. For such borrowings India, as was to be expected, hardly offered any market, the people being too poor and their savings too scanty to furnish a modicum of the required capital outlay. Like all governments of poor peoples, the Government of India had therefore to turn to wealthier countries that had surplus capital to lend. All these countries unfortunately happened to be on the gold standard. As long as it was possible to say that so much gold was equal to so much silver, the English investor was indifferent whether the securities of the Government of India were rupee securities or sterling securities. But the fall in the gold value of silver was also a fall in the gold value of the rupee securities, and what was once a secure investment ceased to be so any more. This placed the Government in a difficult position in the matter of financing its extraordinary public works. Figures in Table XIII are worth study.

The English investor would not invest in the rupee securities. An important customer for the Indian rupee securities was thus lost. The response of the Indian money market was inadequate. To issue sterling securities was the only alternative to enable the Government to tap a bigger and a more constant reservoir for the drawing of capital to India; but as it was bound to increase the burden of the gold payments, which it was the

* Cf. *Calcutta Civil Finance Committee's Report,* 1886 ; also *The Report of the Civil Finance Commissioner* (1887), who completed the work of the Committee after it was dissolved.

TABLE XII

Revenue and Expenditure of the Government of India

Year.	Average Rate of Exchange.	In India.			In England.		Final Result.
		Net Revenue.	Net Expenditure excluding Exchange.	Surplus Revenue.	Net Sterling Revenue.	Exchange.	Surplus (+) or Deficit (-)
	d.	R.	R.	R.	£	R.	R.
1874-75	22.156	39,564,216	25,897,098	13,667,118	12,562,101	1,045,239	59,778
1875-76	21.626	40,053,419	24,541,923	15,511,496	12,544,813	1,377,428.	1,589,255
1876-77	20.508	38,253,366	25,355,285	12,898,081	13,229,646	2,252,611	—2,584,176
1877-78	20.791	39,275,489	27,658,021	11,617,468	13,756,478	2,123,030	—4,262,040
1878-79	19.794	44,415,139	25,778,928	18,636,211	13,610,211	2,891,902	2,134,098
1879-80	19.961	45,258,197	29,384,030	15,874,167	14,223,891	2,878,169	—1,227,893
1880-81	19.956	44,691,119	34,880,434	9,810,085	11,177,231	2,264,848	—3,031,394
1881-82	19.895	45,471,887	27,717,249	17,754,638	11,737,688	2,421,499	3,595,451
1882-83	19.525	42,526,173	25,500,437	17,025,736	13,299,976	3,050,923	674,837
1883-84	19.536	43,591,273	23,566,381	20,024,892	14,770,257	3,375,158	1,879,477
1884-85	19.308	41,585,347	24,763,779	16,821,568	13,844,028	3,363,986	— 386,446
1885-86	18.254	42,635,953	27,352,132	15,283,821	13,755,659	4,329,888	—2,801,726
1886-87	17.441	44,804,774	25,124,335	19,680,439	14,172,298	5,329,714	178,427
1887-88	16,898	45,424,150	25,968,025	19,456,125	15,128,018	6,356,939	—2,028,832
1888-89	16.379	46,558,354	25,051,147	21,507,207	14,652,590	6,817,599	37,018
1889-90	16.566	50,005,810	26,367,855	23,637,955	14,513,155	6,512,767	2,612,033
1890-91	18.090	49,403,819	25,579,727	23,824,092	15,176,866	4,959055	3,688,171
1891-92	16.733	50,023,142	27,013,618	23,009,524	15,716,780	6,825,909	467,535

strongest interest of the Government to reduce, the resort to the London money market, unavoidable as it became, was somewhat restrained,* with the result that the expansion of extraordinary public works did not proceed at a pace demanded by the needs of the country. The effects of this financial derangement, consequent on the fall of the exchange, were not confined to the Government of India. They were immediately felt by the municipalities and other local bodies who were dependent upon the Government for financial aid. So long as the cash balances were overflowing in the treasury of the Government, "one of the most useful ways" to employ them was found in lending a portion of them to these local institutions. As they had just then been inaugurated under the local self-government policy of Lord Ripon's regime, and were looked upon only as an experiment, their taxing and borrowing powers were rigidly limited. Consequently, this financial aid from the Central Government by way of temporary advances was a resource of inestimable value to them. When, however, the cash balances of the Central Government began to diminish owing to the continued losses by exchange, these facilities were severely curtailed,† so that the very vitality of these institutions was threatened just at the moment when they needed all help to foster their growth and strengthen their foundations.

Addressing the Secretary of State, the Government of India, in a despatch of February 2, 1886, observed‡:—

> "10. We do not hesitate to repeat that the facts set forth in the preceding paragraphs are, from the point of Indian interests, intolerable ; and the evils which we have enumerated do not exhaust the catalogue. Uncertainty regarding the future of silver discourages the investment of capital in India, and we find it impossible to borrow in silver except at an excessive cost.
>
> "On the other hand, the Frontier and Famine Railways which we propose to construct, and the Coast and Frontier

* During the period of falling exchange the distribution of the debt of India was as follows:—

		Sterling Debt	Rupee Debt
End of 1873-74	...	41,117,617	66,41,72,900
End of 1898-99	...	124,268,605	1,12,65,04,340

Indian Currency Committee (1898), Appendix II p. 179

† Cf. *Financial Statement,* 1876-77, p. 94.

‡ See C. 4868 of 1886, p. 8.

TABLE XIII

PRICE MOVEMENTS OF RUPEE AND STERLING SECURITIES OF THE GOVERNMENT OF INDIA *

Year.	Rates of Exchange.		Price of 4 per cent. Rupee Paper.				Price of Sterling India Stock.					
			In Calcutta.		In London.		4 per cent.		3½ per cent.		3 per cent.	
	Highest.	Lowest.	Highest.	Lowest.	Highest.	Lowest.	Highest.	Lowest.	Highest.	Lowest.	Highest.	Lowest.
	d.	d.										
1873	22 7/8	21 5/8	105	101 7/8	97	94½	106 1/3	101¼				
1874	23 1/8	21 3/4	104½	99½	98	94½	103 3/4	101				
1875	22 3/16	21¼	102 7/8	101 3/4	94	91	106¼	103¼				
1876	22 3/8	18½	101 7/8	98 3/4	89 3/4	78	105 7/8	101 7/8				
1877	22¼	20 9/16	98 7/8	93¼	88½	81	104 5/8	102¼				
1878	21	18 3/4	96 7/8	93½	82½	75 3/8	104 5/8	99				
1879	20 5/8	18 5/8	94 7/8	91¼	80	77¼	105 3/8	100 7/8				
1880	20 3/8	19 3/4	100	92 15/16	81 3/8	77 3/4	105 5/8	102 1/8				
1881	20 1/16	19½	104 5/8	100	86	81¼	106 3/8	103 7/8	103 7/8	100 3/4		
1882	20 6/16	19 1/16	102 1/10	95 5/8	85	81	105 1/8	102 7/8	101 7/8	99 3/4		
1883	19 9/16	19 3/16	101 1/8	97 9/16	82	79 3/4	104 5/8	102 7/16	103 1/8	101 3/8		
1884	19 3/4	18 15/16	100 5/8	95 5/16	81 3/4	78¼	104 3/8	101 5/8	107 1/8	101 3/4	96¼	91 3/4
1885	19 3/16	17 3/3 ½	98 7/16	92¼	77½	73¼	103 1/16	98 3/4	102 3/4	97½	91½	85 3/4
1886	18	16 1/8	97 3/4	97 3/16	73	66¼	103½	101¼	102 3/4	99 3/4	90 1/8	86 5/8
1887	18 3/16	15 5/8	99 3/16	95 5/16	71 11/16	67 7/8	102 3/4	100½	103¼	100¼	92 3/4	95 3/8
1888	17 1/8	16	100 3/16	97 3/4	69 3/8	66¼	102 7/8	100½	107¼	104 5/8	98	95
1889	16 15/16	16	100 3/8	97 1/16	69 1/8	66 3/8			109½	106 7/8	101 1/8	99
1890	20 2/3 9/2	16 7/8	103 7/8	96 13/16	87¼	68 3/4			108½	105¼	100 3/4	95¼
1891	18¼	16 5/8	107 13/16	104 1/16	80 3/4	74¼			109½	105	99	94½
1892	16 11/16	14 5/8	108 15/16	103 11/16	74½	62			109½	106 1/8	98½	94 7/8

* Appendix II to the *Report of the Indian Currency Committee* of 1893, p. 272. These prices differ slightly from those given in Appendix IV to the First Report of the Gold and Silver Commission, 1886, and also from those in the Statistics of British India (First Issue) for 1906-07, Part IV, (a) Finance Tables 7 and 8 of the division called Prices.

defences which we have planned, are imperatively required and cannot be postponed indefinitely.

"We are forced, therefore, either to increase our sterling liabilities, to which course there are so many objections, or to do without the railways required for the commercial development of the country, and its protection against invasion and the effects of famine.

* * * * *

"11. Nor can the difficulties which local bodies experience in borrowing in India be overlooked. The Municipalities of Bombay and Calcutta require large sums for sanitary improvements, but the high rate of interest which they must pay for silver loans operates to deter them from undertaking expensive works, and we need hardly remind your Lordship that it has quite recently been found necessary for Government to undertake to lend the money required for the construction of docks at Calcutta and Bombay, and that when the Port Commissioners of Calcutta attempted to raise a loan of 75 lakhs of rupees in September, 1885, guaranteed by the Government of India, the total amount of tenders was only Rs. 40,200, and no portion of this insignificant amount was offered at par........."

The importation of capital on private account was hampered for similar reasons, to the great detriment of the country. It was urged on all hands, and was even recommended by a Royal Commission,* that one avenue of escape from the ravages of recurring famines, to which India so pitifully succumbed at such frequent intervals, was the diversification of her industries. To be of any permanent benefit, such diversified industrial life could be based on a capitalistic basis alone. But that depended upon the flow of capital into the country as freely as the needs of the country required. As matters then stood, the English investor, the largest purveyor of capital, looked upon the investment of capital in India as a risky proposition. It was feared that once the capital was spread out in a silver country every fall in the price of silver would not only make the return uncertain when drawn in gold, but would also reduce the capital value of his investment in terms of gold, which was naturally the unit

*Cf. *The Report of the Famine Commission of* 1880, Part II, C 2735 of 1880, pp. 175-76.

in which he measured all his returns and his outlays. This check to the free inflow of capital was undoubtedly the most serious evil arising out of the rupture of the par of exchange.

Another group of people, who suffered from the fall of exchange because of their obligation to make gold payments, was composed of the European members of the Civil Service in India. Like the Government to which they belonged, they received their salaries in silver, but had to make gold remittances in support of their families, who were often left behind in England. Before 1873, when the price of silver in terms of gold was fixed, this circumstance was of no moment to them. But as the rupee began to fall the face of the situation was completely altered. With every fall in the value of silver they had to pay more rupees out of their fixed salaries to obtain the same amount of gold. Some relief was no doubt given to them in the matter of their remittances. The Civil Servants were permitted, at a sacrifice to the Government, to make their remittances at what was called the Official Rate of Exchange.* It is true the difference between the market rate and the official rate was not very considerable. None the less, it was appreciable enough for the Civil Servants to have gained by 2½ per cent. on the average of the years 1862-90† at the cost of the Government. The Military Servants obtained a similar relief to a greater degree, but in a different way. Their salary was fixed in sterling, though payable in rupees. It is true the Royal Warrant which fixed their salary also fixed the rate of exchange between the sterling and the rupee for that purpose. But as it invariably happened that the rate of exchange fixed by the Warrant was higher than the market rate, the Military Servants were compensated to the extent of the difference at

* As was explained by Mr. Waterfield before the Select Committee on East India (Civil Servants), H. C. Return 327 of 1890, Q. 1905-17, it was first instituted in 1824 and was arrived at as follows : In December of each year a calculation was made at the India Office of the cost of sending a rupee to India, based on the market price of silver in London, and of the cost of bringing a rupee from India, based on the price of bills on London in Calcutta. A mean between the two was struck and taken as the adjusting rate for the coming official year between the India Office and the British Treasury in regard to such transactions or payments undertaken by one Government as the agent of the other. It was fixed anew for each and formed a fair average rate, although it was sometimes above and sometimes below the market rate of exchange.

† *Ibid,* Q. 1925-26.

the cost of the Indian Exchequer.* This relief was, comparatively speaking, no relief to them. The official or the warrant rates of exchange, though better than the market rates of exchange, were much lower than the rate at which they were used to make their remittances before 1873. Their burden, like that of the Government, grew with the fall of silver, and as their burden increased their attitude became alarmist. Many were the memorialists who demanded from the Government adequate compensation for their losses on exchange.† The Government was warned‡ that

> "the ignorant folk who think India would be benefited by lowering present salaries are seemingly unable to comprehend that such a step would render existence on this reduced pay simply impossible, and that recourse would of necessity be had to other methods of raising money."

Such, no doubt, was the case in the earlier days of the East India Company, when the Civil Servants fattened on pickings because their pay was small,§ and it was to put a stop to their extortions that their salaries were raised to what appears an extra-ordinary level. That such former instances of extortions should have been held out as monitions showed too well how discontented the Civil Service was owing to its losses through exchange.

Quite a different effect the fall had on the trade and industry of the country. It was in a flourishing state as compared with the affairs of the Government or with the trade and industry of a gold-standard country like England. Throughout the period of falling silver there was said to be a progressive decline relatively to population in the employment afforded by various trades and industries in England. The textile manufactures and the iron and coal trade were depressed as well as the other important trades,

* Cf. F. S. 1887-8, pp. 39-40. This cost was as follows :—

1847-75	...	Rs. 6,40,000	1885-86	Rs. 4,00,000
1884-85	...	Rs. 18,43,000	1886-87	Rs. 5,15,000

† Cf. *Report of the Indian Currency Committee,* 1893, App. I, pp. 185-90 and p. 202, for memorials of the European Civil Servants.

‡ Cf. Col. Hughes-Hallett, M.P., *The Depreciation of the Rupee : its Effect on the Anglo-Indian Official—the Wrong and the Remedy,* London, 1887, p. 14.

§ The connection between the rapacious conduct of the early European Civil Servants and the smallness of their salaries was well brought out by Clive in his speech dated March 30, 1772, during the course of the debate in the House of Commons on the East India Judicature Bill, *Hansard,* Vol. XVII, pp. 334-39.

including the hardware manufactures of Birmingham and Sheffield, the sugar-refining of Greenock, Liverpool, and London, the manufactures of earthenware, glass, leather, paper, and a multitude of minor industries.* The depression in English agriculture was so widespread that the Commissioners of 1892 were " unable to point to any part of the country in which [the effects of the depression] can be said to be entirely absent," and this notwithstanding the fact that the seasons since 1882 "were on the whole satisfactory from an agricultural point of view."† Just the reverse was the case with Indian trade and industry. The foreign trade of the country, which had bounced up during the American Civil War, showed greater buoyancy after 1870, and continued to grow throughout the period of the falling exchange at a rapid pace. During the short space of twenty years the total imports and exports of the country more than doubled in their magnitude, as is shown by Table XIV.

TABLE XIV

IMPORTS AND EXPORTS (BOTH MERCHANDIZE AND TREASURE)§

Year	Exports R.	Imports	Year	Exports R.	Imports
1870-71	57,556,951	39,913,942	1881-82	83,068,198	60,436,155
1871-72	64,685,376	43,665,663	1882-83	84,527,182	65,548,868
1872-73	56,548,842	36,431,210	1883-84	89,186,397	68,157,311
1873-74	56,910,081	39,612,362	1884-85	85,225,922	69,591,269
1874-75	57,984,549	44,363,160	1885-86	84,989,502	71,133,666
1875-76	60,291,731	44,192,378	1886-87	90,190,633	72,830,670
1876-87	65,043,789	48,876,751	1887-88	92,148,279	78,830,468
1877-78	67,433,324	58,819,644	1888-89	98,833,879	83,285,427
1878-79	64,919,741	44,857,343	1889-90	105,366,720	86,656,990
1879-80	69,247,511	52,821,398	1890-91	102,350,526	93,909,856
1880-81	76,021,043	62,104,984	1891-92	111,460,278	84,155,045

§ From Appendix II (Nos. 1 and 2) to the *Report of the Indian Currency Committee of 1898.*

* Report by Dunraven, Farrer, Muntz, and Lubbock in the *Final Report of the Royal Commission on Depression of Trade and Industry, par.,* 54, C. 4893.

† *Final Report of the Royal Commission on Agricultural Depression in England,* C 8540 of 1897, par. 28.

TABLE XV. NATURE OF INDUSTRIAL PURSUITS IN ENGLAND AND INDIA *

	Distribution of *Indian* Exports exclusive of Treasure.					Distribution of *English* Exports exclusive of Treasure.				
	Manufactured Articles.	Raw Materials.	Food Articles.	Unclassified Articles.	Total.	Manufactured Articles.	Raw Materials.	Food Articles.	Unclassified Articles.	Total.
1857	11	34	22	23	100	90.9	4	4.9	.2	100
1858	6	35	26	33	100	91.4	3.4	5.1	.1	100
1859	6.5	40	15.5	38	100	91.5	3.8	4.6	.1	100
1860	5.7	43.6	17.7	33	100	91.9	3.6	4.4	.3	100
1861	5.8	46.5	15.3	32.4	100	90.4	4.8	4.8	—	100
1862	5	52	16	27	100	90.3	4	4.8	.9	100
1863	3.7	58.7	10.6	27	100	91.0	4	4	1.0	100
1864	4	69.2	9.3	17.5	100	92.5	3.7	3.7	.1	100
1865	3.5	68	12	16.6	100	92.1	3.6	3.6	.7	100
1866	4.2	67.2	10.3	18.3	100	92	3.7	3.7	.4	100
1867	4	58	11	27	100	92.2	3.8	3.7	.3	100
1868	4	58.5	11.5	26	100	92	4.4	3.4	.2	100
1869	4.8	60.5	14	20.7	100	92	4.2	31	.7	100
1870	4.4	63.6	9	23	100	91	4	4	1.0	100
1871	3.7	65.3	11	20	100	90	4.4	4.9	.7	100
1872	3.3	61.4	13.5	21.8	100	91.2	5.4	3.5	.9	100

* The figures for India are calculated from the *Statistical Abstract for British India,* Second Number (1857-866), Table No. 34, and the Eighth Number (1864-1873), Table No. 24. Figures for England are taken from Appendix C (Statement 6) to the *First Report of the Royal Commission of the Depression of Trade and Industry,* 1885, with this alteration—that the separate figures in the original under "Manufactured" and "Partially Manufactured" are here grouped under "Manufactured." The "Unclassified Articles" under Indian Exports are for the most part "Jewellery."

TABLE XVI

Changes in Industrial Pursuits of India*

Years	Imports		Exports	
	Manufactured	Raw	Manufactured	Raw
	Rs.	Rs.	Rs.	Rs.
1879	25,98,65,827	13,75,55,837	5,27,80,340	59,67,27,991
1892	36,22,31,872	26,38,18,431	16,42,47,566	85,52,09,499
Percentage of increase	39	91	211	43
Total Annual	2.8	6.5	15	3

Not only had the trade of India been increasing, but the nature of her industries was also at the same time undergoing a profound change. Prior to 1870, India and England were, so to say, non-competing groups. Owing to the protectionist policy of the Navigation Laws, and owing also to the substitution of man by machinery in the field of production, India had become exclusively an agricultural and a raw-material-producing country, while England had transformed herself into a country which devoted all her energy and her resources to the manufacturing of raw materials imported from abroad into finished goods. How marked was the contrast in the industrial pursuits in the two countries is well revealed by the analysis of their respective exports in Table XV.

After 1870, the distribution of their industrial pursuits was greatly altered, and India once again began to assume the role of a manufacturing country. Analysing the figures for Indian imports and exports for the twenty years succeeding 1870, (*see Table XVI)* we find that the progress in the direction of manufactures formed one of the most significant features of the period.

This change in the industrial evolution was marked by the growth of two principal manufactures. One of them was the

* From Ranade's *Essays on Indian Economics,* p. 104.

manufacture of cotton. The cotton industry was one of the oldest industries of India, but during 100 years between 1750 and 1850 it had failed into a complete state of decrepitude. Attempts were made to resuscitate the industry on a capitalistic basis in the sixties of the nineteenth century and soon showed signs of rapid advance. The story of its progress is graphically illustrated in the following summary in Table XVII:—

TABLE XVII

THE DEVELOPMENT OF INDIAN COTTON TRADE AND INDUSTRY

	Growth of Trade (Average Annual Quantities in each Quinquennium)				
	1870-71 to 1874-75	1875-76 to 1879-80	1880-81 to 1884-85	1885-86 to 1889-90	1890-91 to 1894-95
Imports of raw cotton—thousands or cwts.	23	52	51	74	89
Exports of raw cotton—thousands of cwts.	5,236	3,988	5,477	5,330	4,660
Imports of twist and yarn	33.55	33.55	44.34	49.09	44.79
	Growth of Industry (at end of each fifth year)				
Number of mills	48	58	81	114	143
Number of spindles—000—omitted	1,000	1,471	2,037	2,935	3,712
Number of looms—000—omitted	10	13	16	22	34
Number of persons employed	...	39,537	61,836	99,224	...

Another industry which figured largely in this expansion of Indian manufactures was jute. Unlike the cotton industry of India, the jute industry was of a comparatively recent origin. Its growth, different from that of the cotton industry, was fostered by the application of European capital, European management, and European skill, and it soon took as deep roots as the cotton industry and flourished as well as the latter did, if not better. Its history was one of continued progress as will be seen from Table XVIII.

This increasing trend towards manufactures was not without its indirect effects on the course of Indian agriculture. Prior to 1870 the Indian farmer, it may be said, had no commercial outlook. He cultivated not so much for profit as for individual self-sufficiency. After 1870 farming tended to become a business and crops came more and more to be determined by the course of market prices than by the household needs of the farmer. This is well illustrated by figures in Table XIX.

Such was the contrast in the economic conditions prevalent in the two countries. This peculiar phenomenon of a silver-standard country steadily progressing, and a gold-standard country tending to a standstill, exercised the minds of many of

TABLE XVIII

Development of Jute Industry and Trade

Growth	Average Annual of each Quinquennium				
	1870-71 to 1874-75	1875-76 to 1879-80	1880-81 to 1884-85	1885-86 to 1889-90	1890-91 to 1894-95
Exports-					
Raw, million cwt.	5.72	5.58	7.81	9.31	10.54
Gunny bags, millions	6.44	35.96	60.32	79.98	120.74
Cloth, million yds.	...	4.71	6.44	19.79	54.20
Growth of Industry					
Number of—					
Mills	...	21	21	24	26
Looms, 000 omitted	...	5.5	5.5	7	8.3
Spindles, 000 omitted	...	88	88	138.4	172.4
Persons employed, in thousands	...	38.8	38.8	52.7	64.3

its observers. The chief cause was said to be the inability of the English manufacturers to hold out in international competition. This inability to compete with the European rivals was attributed to the prevalence of protective tariffs and subsidies which formed an essential part of the industrial and commercial code of the European countries. Nothing of the kind then existed

TABLE XIX

Growth of Agricultural Exports of India

	1868-69	1873-74	1877-78	1882-83	1887-88	1891-92
Wheat	100	637.41	2,313.47	5,152.36	4,914.37	11,001.44
Opium	100	118.38	123.83	122.47	120.20	116.82
Seeds	100	111.26	305.87	239.97	403.60	480.99
Rice	100	131.66	119.84	203.28	185.55	220.36
Indigo	100	116.91	121.57	142.17	140.76	126.33
Tea	100	169.35	293.17	507.25	775.09	1,075.75
Cofee	100	86.04	69.98	85.31	64.59	74.11

in India, where trade was as free and industry as unprotected as any could have been, and yet the Lancashire cotton-spinner, the Dundee jute manufacturer and the English wheat-grower complained that they could not compete with their rivals in India. The cause, in this case, was supposed to be the falling exchange.* So much were some people impressed by this view that even the extension of the Indian trade to the Far East was attributed to this cause. Already, it was alleged, the dislocation of the par of exchange between gold and silver had produced a kind of segregation of gold-using countries and silver-using countries to the exclusion of each other. In a transaction between two countries using the same metal as standard it was said the element of uncertainty arising from the use of two metals varying in terms of each other was eliminated. Trade between two such countries could be carried on with less risk and less inconvenience than between two countries using different standards, as in the latter case the uncertainty entered into every transaction and added to the expense of the machinery by which trade was carried on. That the Indian trade should have been deflected to other quarters† where, owing to the existence of a common standard the situation trade had to deal with was immune from uncertainties, was readily admitted. But it was contended that there was no reason why, as a part of the segregation of commerce, it should have been possible for the Indian manufacturer to oust his English rival from the Eastern markets to the extent he was able to do (*see* Table XX, p. 432).

The causes which effected such trade disturbances formed the subject of a heated controversy.‡ The point in dispute was whether the changes in international trade, such as they were, were attributable to the monetary disturbances of the time. Those who held to the affirmative explained their position by arguing that the falling exchange gave a bounty to the Indian producer and imposed a penalty on the English producer. The

* Cf. *The Final Report of the Royal Commission on Gold and Silver* Part I, pars. 99-101, for a summary of the argument.

† The distribution of Indian trade during this period was as shown on the page 432 footnote.

‡ *See* the evidence and memoranda by Profs. Marshall and Nicholson before the Royal Commission on Gold and Silver (1886); also Prof. Lexis, " The Agio on Gold and International Trade," in the *Economic Journal,* Vol. V, 1895.

TABLE XX

Exports of Cotton Goods to Eastern Markets

Years	Yarn, lbs. 000 omitted		Piece-goods, yds., 000 omitted	
	From India	From U. K.	From India	From U. K.
1877 ...	7,927	33,086	15,544	394,489
1878 ...	15,600	36,467	17,545	382,330
1879 ...	21,332	38,951	22,517	523,921
1880 ...	25,862	46,426	25,800	509,099
1881 ...	26,901	47,479	30,424	587,177
1882 ...	30,786	34,370	29,911	454,948
1883 ...	45,378	33,499	41,534	415,956
1884 ...	49,877	38,856	55,565	439,937
1885 ...	65,897	33,061	47,909	562,339
1886 ...	78,242	26,924	51,578	490,451
1887 ...	91,804	35,354	53,406	618,146
1888 ...	113,451	44,643	69,486	652,404
1889 ...	128,907	35,720	70,265	557,004
1890 ...	141,950	37,869	59,496	633,606
1891 ...	169,253	27,971	67,666	595,258

† Distribution of Indian Trade

Annual Average for each Quinquennium in Millions of rupees

Countries	1875-76 to 1879-80			1880-81 to 1884-85		
	Imports	Exports	Total	Imports	Exports	Total
United Kingdom ...	323.68	278.15	601.83	434.45	344.22	778.67
China ...	14.05	132.27	146.32	19.23	134.94	154.17
Japan ...	.02	.33	.35	.19	2.09	2.28
Ceylon ...	5.74	22.97	28.71	5.35	16.37	21.72
Straits Settlement	10.83	26.11	36.94	15.88	33.65	49.53

Annual Average for each Quinquennium in Millions of rupees

Countries	1885-86 to 1989-90			1890-91 to 1894-95		
	Imports	Exports	Total	Imports	Exports	Total
United Kingdom ...	510.47	360.59	871.06	526.24	338.40	864.64
China ...	21.64	134.54	156.18	28.69	133.30	161.90
Japan ...	.25	7.27	7.52	1.51	14.44	15.95
Ceylon ...	5.86	20.56	26.42	6.42	31.18	37.60
Straits Settlement	20.09	42.54	62.63	23.32	52.56	75.88

existence of this bounty, which was said to be responsible for the shifting of the position of established competitors in the field of international commerce, was based on a simple calculation. It was said that if the gold value of silver fell the Indian exporter got more rupees for his produce and was therefore better off, while by reason of the same fact the English producer got fewer sovereigns and was therefore worse off. Put in this naive form, the argument that the falling exchange gave a bounty to the Indian exporters and imposed a penalty on the English exporters had all the finality of a rule of arithmetic. Indeed, so axiomatic was the formula regarded by its authors that some important inferences as to its bearing on the trade and industrial situation of the time were drawn from it. One such inference was that it stimulated exports from and hindered imports into the silver-using countries. The second inference was that the fall of exchange exposed some English producers more than others to competition from their rivals in silver-using countries. Now, can such results be said to follow from the fall of exchange ? If we go behind the bald statement of a fall of exchange and inquire as to what determined the gold price of silver the above inferences appear quite untenable. That the ratio between gold and silver was simply the inverse of the ratio between gold prices and silver prices must be taken to be an unquestionable proposition. If therefore the gold price of silver was falling it was a counterpart of the more general phenomenon of the fall of the English prices which were measured in gold, and the rise of the Indian prices which were measured in silver. Given such an interpretation of the event of the falling exchange, it is difficult to understand how it can help to increase exports and diminish imports. International trade is governed by the relative advantages which one country has over another, and the terms on which it is carried on are regulated by the comparative cost of articles that enter into it. It is, therefore, obvious that there cannot be a change in the real terms of trade between countries except as a result of changes in the comparative cost of these goods. Given a fall in gold prices *all round,* accompanied by a rise in silver prices *all round,* there was hardly anything in the monetary disturbance that could be said to have enabled India to increase her exportation of anything except by diminishing her exportation or increasing her importation of something else. From the same view of the question of the falling exchange it follows that such a monetary disturbance could not depress one trade more than another. If the falling or rising exchange was simply an expression of the level of *general* prices, then the producers of all articles were equally affected. There was no reason why the cotton trade or the wheat trade should have been more affected by the fall of exchange than the cutlery trade.

Not only was there nothing in the exchange disturbance to disestablish existing trade relations in general or in respect of particular commodities, but there was nothing in it to cause benefit to the Indian producer and injury to the English producer. Given the fact that the exchange was a ratio of the two price-levels, it is difficult to see in what sense the English producer, who got fewer sovereigns but of high purchasing power, was worse off than the Indian producer, who got more rupees but of low purchasing power. The analogy of Prof. Marshall was very apt. To suppose that a fall of exchange resulted in a loss to the former and a gain to the latter was to suppose that, if a man was in the cabin of a ship only ten feet high, his head would be broken if the ship sank down twelve feet into a trough. The fallacy consisted in isolating the man from the ship when, as a matter of fact, the same force, acting upon the ship and the passenger at one and the same time, produced like movements in both. In like manner, the same force acted upon the Indian producer and the English producer together, for the change in the exchange was itself a part of the more sweeping change in the general price-levels of the two countries. Thus stated, the position of the English and Indian producer was equally good or equally bad, and the only difference was that the former used fewer counters and the latter a larger number in their respective dealings.

A bounty to the Indian producer and a penalty to the English producer, it is obvious, could have arisen only if the fall of silver in England in terms of gold was greater than the fall of silver in terms of commodities in India. In that case the Indian producer would have obtained a clear benefit by exchanging his wares for silver in England and thus securing a medium which had a greater command over goods and services in India. But *a priori* there could be no justification for such an assumption. There was no reason why gold price of silver should have fallen at a different rate from the gold price of commodities in general, or that there should have been a great difference between the silver prices in England and in India. Statistics show that such *a priori* assumptions were not groundless. (See Table XXI).

TABLE XXI. MOVEMENTS OF PRICES, WAGES AND SILVER BETWEEN INDIA AND ENGLAND *

Net Imports of Silver into India.		Index No. for Gold Price of Silver.	Years.	Index No. for Silver Prices of Commodities in India.	Index No. for Wages in India.	Index No. for Gold Prices of Commodities in England.	Index No. for Wages in England.
Years.	Amount Rs.						
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1871-72	6,587,296	99.7	1871	100	—	100	100
1872-73	739,244	99.2	1872	105	—	109	105.8
1873-74	2,530,824	97.4	1873	107	100	111	112
1874-75	4,674,791	95.8	1874	116	101	102	113
1875-76	1,640,445	93.3	1875	103	97	96	111.6
1876-77	7,286,188	86.4	1876	107	98	95	110
1877-78	14,732,194	90.2	1877	138	97	94	109.8
1878-79	4,057,377	86.4	1878	148	99	87	107
1879-80	7,976,063	84.2	1879	135	100	83	105.8
1880-81	3,923,612	85.9	1880	117	99	88	106.5
1881-82	5,381,410	85.0	1881	106	99	85	106.5
1882-83	7,541,427	84.9	1882	105	100	84	106.5
1883-84	6,433,886	83.1	1883	106	102	82	108
1884-85	7,319,581	83.3	1884	114	101	76	109
1885-86	11,627,028	79.9	1885	113	106	72	108
1886-87	7,191,743	74.6	1886	110	105	69	107
1887-88	9,319,421	73.3	1887	111	114	68	108
1888-89	9,327,529	70.4	1888	119	112	70	109.8
1889-90	11,002,078	70.2	1889	125	112	72	113
1890-91	14,211,408	78.4	1890	125	113	72	118
1891-92	9,165,684	74.3	1891	128	118	72	118
1892-93	12,893,499	65.5	1892	141	110	68	117.4
1893-94	13.759,273	58.5	1893	138	119	68	117.4

* Col. (2) is from Appendix II, Table No. 2 of the I.C.C. of 1898. Cols. (3), (5), (6), and (7) are from Atkinson's "Silver Prices in India," in the *Journal of the Statistical Society,* March, 1897. Col. (8) is based on the figures given by W. T. Layton in his *Introduction to the Study of Prices* (1912), Table I, Col. 1, p. 150, re-scaled to 1871 as 100.

It is obvious that if silver was falling faster than commodities, and if silver prices in India were lower than silver prices in England, we should have found it evidenced by an inflow of silver from England to India. What were the facts ? Not only was there no extraordinary flow of silver to India, but the imports of silver during 1871-93 were much smaller than in the twenty years previous to that period.* This is as complete a demonstration as could be had of the fact that the silver prices in India were the same as they were outside, and consequently the Indian producer had very little chance of a bounty on his trade.

Although such must be said to be the *a priori* view of the question, the Indian producer was convinced that his prosperity was due to the bounty he received. Holding such a position he was naturally opposed to any reform of the Indian currency, for the falling exchange which the Government regarded a curse he considered a boon. But however plausible was the view of the Indian producer, much sympathy would not have been felt for it had it not been coupled with a notion, most commonly held, that the bounty arose from the *export trade,* so that it became an article of popular faith that the fall of exchange was a source of gain to the *nation as a whole.* Now was it true that the bounty arose from the export trade ? If it were so, then every fall of exchange ought to give a bounty. But supposing that the depreciation of silver had taken place in India *before* it had taken place in Europe could the fall of exchange thus brought about have given a bounty to the Indian exporter ? As was explained above, the Indian exporter stood a chance of getting a bounty only if with the silver he obtained for his produce he was able to buy more goods and services in India. To put the same in simpler language, his bounty was the difference between the price of his product and the price of his outlay. Bearing this in mind, we can confidently assert that in the supposed case of depreciation of silver having taken place in India first, such a fall in the Indian exchange would have been accompanied by a penalty instead of a bounty on his trade. In that case, the exporter from India would have found that though the Indian exchange, i.e. the gold price of silver, had fallen, yet the ratio which gold prices in England bore to silver prices in India had

* Cf. figures for imports of silver in Chap. I. It will, however, be noted how closely the flow of silver into India between 1872 and 1893 followed the fall in gold price of silver.

fallen more, i.e. the price he received for his product was smaller than the outlay he had incurred. It is not quite established whether silver had fallen in Europe before it had fallen in India.* But even if that were so the possibility of a penalty through the fall of exchange proves that the bounty, it there was any, was not a bounty on the export trade as such, but was an outcome of the disharmony between the general level of prices and the prices of particular goods and services within the country, and *would have existed* even if the country had no export *trade.*

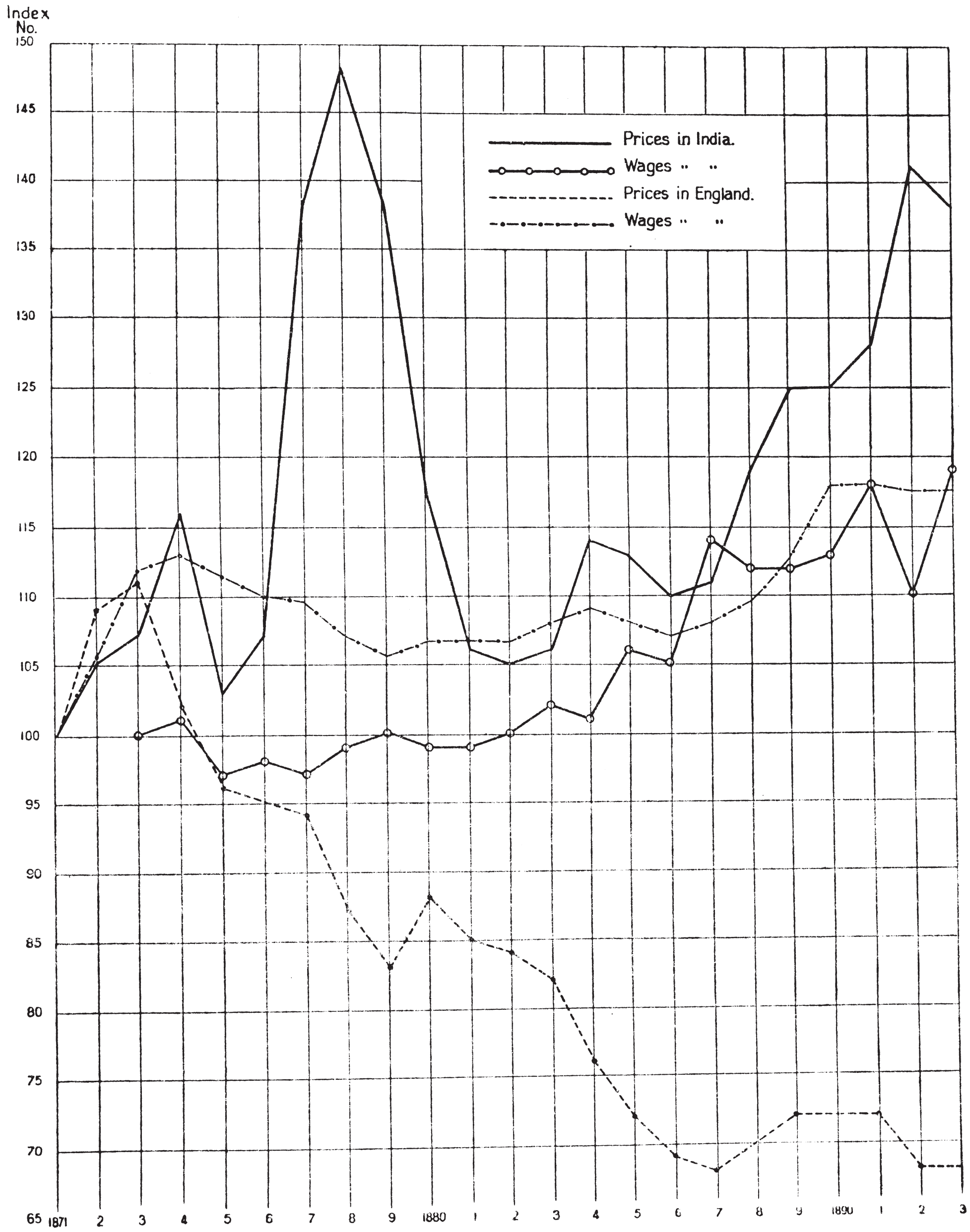
Thus the bounty was but an incident of the general depreciation of the currency. Its existence was felt because prices of *all* goods and services in India did not move in the same uniform manner. It is well known that at any one time prices of certain commodities will be rising, while the general price level is falling. On the other hand, certain goods will decline in price at the same time that the general price-level is rising. But such opposite movements are rare. What most often happens is that prices of some goods and services, though they move in the same direction, do not move at the same pace as the general price level. It is notorious that when general prices fall wages and other fixed incomes, which form the largest item in the total outlay of every employer, do not fall in the same proportion ; and when general prices rise they do not rise as fast as general prices, but generally lag behind. And this was just what was happening in a silver-standard country like India and a gold-standard country like England during the period of 1873-93 (see Chart IV). Prices had fallen in England, but wages had not fallen to the same extent. Prices had risen in India, but wages had not risen to the same extent. The English manufacturer was penalized, if at all, not by any act on the part of his Indian rival, but by reason of the wages of the former's employees having remained the same, although the price of his products had fallen. The Indian producer got a bounty, if any, not because he had an English rival to feed upon, but because he did not have to pay higher wages, although the price of his product had risen.

The conclusion, therefore, is that the falling exchange could not have disturbed established trade relations or displaced the

* *See infra.* Chap. IV,

CHART IV

PRICES AND WAGES IN INDIA AND ENGLAND, 1873–93



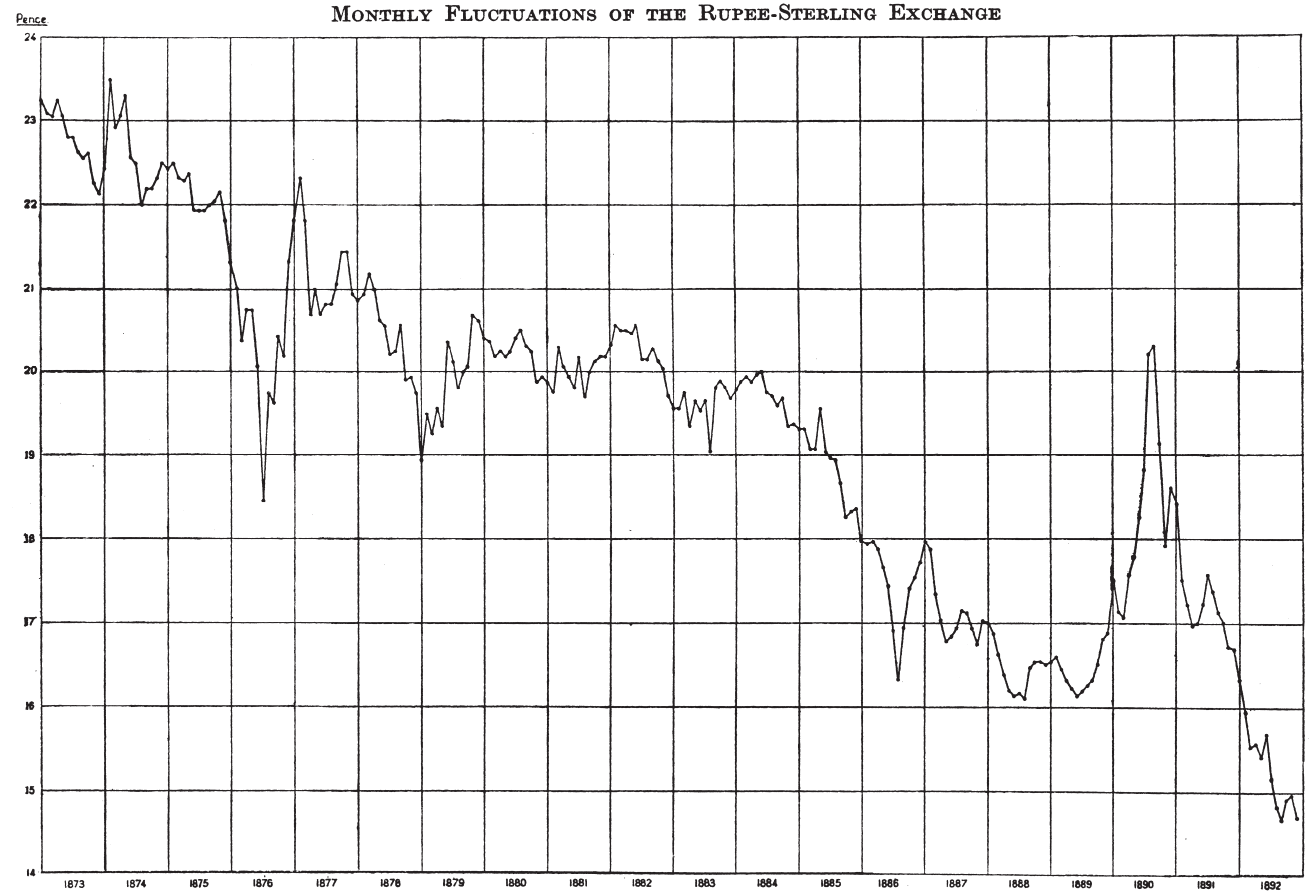
commodities that entered into international trade. The utmost that could be attributed to it is its incidence in economic incentive. But in so far as it supplied a motive force or took away the incentive, it did so by bringing about changes in the social distribution of wealth. In the case of England, where prices were falling, it was the employer who suffered ; in the case of India, where prices were rising, it was the wage-earner who suffered. In both cases there was an injustice done to a part of the community and an easy case for the reform of currency was made out. The need for a currency reform was recognized in England ; but in India many people seemed averse to it. To some the stability of the silver standard had made a powerful appeal, for they failed to find any evidence of Indian prices having risen above the level of 1873. To others the bounty of the falling exchange was too great a boon to be easily given away by stabilizing the exchange. The falsity of both the views is patent. Prices in India did rise and that, too, considerably. Bounty perhaps there was, but it was a penalty on the wage-earner. Thus viewed, the need for the reform of Indian currency was far more urgent than could have been said of the English currency. From a purely psychological point of view there is probably much to choose between rising prices and falling prices. But from the point of view of their incidence on the distribution of wealth, very little can be said in favour of a standard which changes in its value and which becomes the *via media* of tranferring wealth from the relatively poor to the relatively rich. Scrope said : "Without stability of value money is a fraud." Surely, having regard to the magnitude of the interests affected, depreciated money must be regarded as a greater fraud. That being so, the prosperity of Indian trade and industry, far from being evidence of a sound currency, was sustained by reason of the fact that the currency was a diseased currency. The fall of exchange, in so far as it was a gain, registered a loss to a large section of the Indian people with fixed incomes who suffered from the instability of the silver standard equally with the Government and its European officers.

So much for the fall of silver. But the financial difficulties and social injustices it caused did not sum up the evil effects produced by it. Far more disturbing than the fall were the fluctuations which accompanied the fall (*see* Chart V).

The fluctuations greatly aggravated the embarrassment of the Government of India caused by the fall in the exchange value

CHART V

MONTHLY FLUCTUATIONS OF THE RUPEE-STERLING EXCHANGE



of the rupee. In the opinion of the Hon. Mr. Baring (afterwards Lord Cromer),*

> "It is not the fact that the value of the rupee is, comparatively speaking, low that causes inconvenience. It would be possible, although it might be exceedingly troublesome, to adjust the Indian fiscal system to a rupee of any value. What causes inconvenience alike to Government and to trade is that the value of the rupee is unstable. It is impossible to state accurately in Indian currency what the annual liabilities of the Government of India are. These liabilities have to be calculated afresh every year according to the variations which take place in the relative value of gold and silver, and a calculation which will hold good for even one year is exceedingly difficult to make."

Owing to such fluctuations, no rate could be assumed in the Budget which was likely to turn out to be the true market rate, As matters stood, the rate realized on an average during a particular year differed so widely from the Budget rate that the finances of the Government became, to employ the phraseology of a finance minister, a "veritable gamble." How greatly the annual Budget must have been deranged by the sudden and unprovided-for changes in the rupee cost of the sterling payments Table XXII on page 442 may help to give some idea.

If Government finance was subjected to such uncertainties as a result of exchange fluctuations, private trade also became more or less a matter of speculation. Fluctuations in exchange are, of course, a common incident of international trade. But if they are not to produce discontinuity in trade and industry there must be definite limits to such fluctuations. If the limits are ascertainable, trade would be reasonably certain in its calculation, and speculation in exchange would be limited within the known limits of deviations from an established par. Where, on the other hand, the limits are unknown, all calculations of trade are frustrated and speculation in exchange takes the place of legitimate trading. Now, it is obvious that fluctuations in the exchange between two countries will be limited in extent if the two countries have the same standard of value. Where there is no such common standard of value the limits, though they

* *Financial Statement,* 1883-84, p. 26.

TABLE XXII

FLUCTUATIONS OF EXCHANGE AND FLUCTUATIONS IN THE RUPEE COST OF GOLD PAYMENTS*

Financial Year.	Estimated Rate of Exchange on which the Budget of the Year was framed.		Rate of Exchange actually realized on the Average during the Year.		Changes in the Rupee Cost of Sterling Payments consequent upon Changes between the Estimated and the Realized Rates of Exchange.	
					Increase.	Decrease.
	s.	d.	s.	d.	Rs.	Rs.
1874-75	1	10.375	1	10.156	15,91,764	—
1875-76	1	9.875	1	9.626	19,57,917	—
1876-77	1	8.5	1	8.508	—	76,736
1877-78	1	9.23	1	8.791	38,43,050	—
1878-79	1	8.4	1	7.794	56,87,129	—
1879-80	1	7	1	7.961	—	84,40,737
1880-81	1	8	1	7.956	4,24,722	—
1881-82	1	8	1	7.895	10,17,482	—
1882-83	1	8	1	7.525	37,46,890	—
1883-84	1	7.5	1	7.536	—	3,62,902
1884-85	1	7.5	1	7.308	18,97,307	—
1885-86	1	7	1	6.254	56,82,638	—
1886-87	1	6	1	5.441	65,17,721	—
1887-88	1	5.5	1	4.898	71,90,097	—
1888-89	1	4.9	1	4.379	77,98,400	—
1889-90	1	4.38	1	4.566	—	27,31,892
1890-91	1	4.552	1	6.09	—	2,35,51,744
1891-92	1	5.25	1	4.733	80,09,366	—

* Compiled from figures given in the *Final Report of the Gold and Silver Commission,* p. 40, and in App. II, p. 270, to the *Report of the Indian Currency Committee,* 1893.

exist, are too indefinite to be of much practical use. The rupture of the fixed par of exchange, having destroyed a common standard of value between gold and silver countries, removed the limits on the exchange fluctuations between such countries. As a result of such variations in the value of the standard measure, trade advanced by "rushes and pauses," and speculation became feverishly active.*

That progress of trade depends on stability is a truism which seldom comes home until it is denied in fact. It is difficult to appreciate its importance to healthy enterprise when government is stable, credit is secure, and conditions are uniform. And yet so great is the handicap of instability that everywhere business men have been led by a variety of devices to produce stability in domains enveloped by uncertainty. Everywhere there have grown up business barometers forewarning business men of impending changes and so enabling them to forearm against them by timely changes in their operations. The whole of insurance business is aimed at giving stability to economic life. The necessity which compelled all regularly established Governments to maintain standard measures by which the true proportion between things as to their quantities might be ascertained and dealings in them regulated with certainty was motivated by the same purpose. The meticulous precision with which every civilised country defines its standard measures, and the large machinery it maintains to preserve them from deviation, are only evidences of the great importance that an economic society must continue to attach to the matter of providing precision of expression and assurance of fulfilment with regard to the contracts entered into by its members in their individual or corporate capacities.

Important as are the standard measures of a community, its measures of a community, its measure of value is by far the most important of them all.† The measures of weight, extension, or volume enter only into particular transactions. If the pound, the bushel, or the yard were altered the evils would be comparatively restricted in scope. But the measure of value is all-prevading.

* Evid. Indian Currency Committee, 1898, Q. 6,290, 9,808-10.

† Cf. Harris, *An Essay upon Money and Coins* (reprinted by J. R. McCulloch in his volume of *Scarce Tracts on Money,* Part I, Chap. II, par. 21 ; Part II, Chap. II, pars. 11, 13, and 20).

> "There is no contract," Peel declared.* "public or private, no engagement national or individual, which is unaffected by it. The enterprises of commerce, the profits of trade, the arrangements made in all domestic relations of society, the wages, of labour, pecuniary transactions of the highest amount and of the lowest, the payment of national debt, the provision for national expenditure, the command which the coin of the smallest denomination has over the necessaries of life, are all affected"

by changes in the measure of value. This is because every contract, though ultimately a contract in goods, is primarily a contract in value. It is, therefore, not enough to maintain constancy in the measures of weight, capacity, or volume. A contract as one of goods may remain exact to the measure stipulated, but may nevertheless be vitiated as a contract in values by reason of changes in the measure of values. The necessity of preserving stability in its measure of value falls on the shoulders of every Government of an orderly society. But its importance grows beyond disputes as society advances from status to contract. The conservation of the contractual basis of society then becomes tantamount to the conservation of an invariable measure of value.

The work of reconstituting a common measure of value in some form or other, which those misguided legislators of the seventies helped to destroy, it was found, could not be long delayed with impunity. The consequences that followed in the wake of that legislation, as recounted before, were too severe to allow the situation to remain unrectified. That efforts for reconstruction should have been launched before much mischief was done only shows that a world linked by ties of trade will insist, if it can, that its currency systems must be laid on a common gauge.

●●

* Cf. his speech dated May 6, 1844, delivered during the Commons debates on the Bank Charter Act. Hansard, Vol. XXXIV, p. 720.

CHAPTER IV

TOWARDS A GOLD STANDARD

The establishment of stable monetary conditions was naturally enough dependent upon the restoration of a common standard of value. Plain as was the aim, its accomplishment was by no means an easy matter. Two ways seemed at first to be open for carrying it out in practice. One was to adopt a common metal as currency, and since all important countries of the world had gone over to the gold standard it meant the silver-standard countries should abandon their standard in favour of gold. The other was to let the gold and silver standard countries keep to their currencies and to establish between them a fixed ratio of exchange so as to make the two metals into a common standard of value.

The history of the agitation for the reform of the Indian currency is a history of these two movements. The movement for the introduction of a gold standard was, however, the first to occupy the field. The failure of the notification of 1868 may be said to have marked the failure of a policy, but the movement for a gold currency in India started in the sixties was not altogether stamped out of the country. That the movement still had life in it is shown by the fact that it was revived four years later by Sir R. Temple, when he became the Finance Minister of India, in a memorandum* dated May 15, 1872. The important particular in which he differed from his predecessors consisted in the fact that while they all aimed to make the British sovereign the principal unit of the gold currency in India, he desired to give that place to the Indian gold coin, the "mohur." Why his predecessors did not do the same when the problem of correctly rating the soverign was said to have baffled them so much is a little surprising when it is recalled that the Indian Mints had been since long past issuing the "mohur", which, as it was possible to rate it correctly, could as well have been made the principal unit of the gold currency in India. That they did not

* Printed as Appendix I, No. 12, to the *Report of the Indian Currency Committee* of 1898.

can only be explained on the assumption that they were anxious to kill two birds with one stone. The adoption of the sovereign, besides supporting a gold currency in India, was also calculated to promote the movement of international uniformity of coinage then in vogue. The utility of the "mohur" was in this respect comparatively inferior to that of the sovereign. But when Sir Richard Temple came upon the scene the prospect of some universal coin being internationally adopted seemed to be fast vanishing. At all events the Report of the English Commission on International Coinage, presided over by Lord Halifax, had pronounced adversely as to any change in the standard of the English sovereign. Untrammelled by any considerations for such a wider issue, Sir R. Temple was free to recommend the adoption of the "mohur" as the unit of currency in place of the sovereign.*

> "We have," he wrote, "gold pieces representing fifteen, ten and five rupees respectively; and believed to represent these several sums very correctly, as regards the relative value of gold and silver .... that .... we should take the first opportunity to declare the gold coins legal tender to unlimited amount; that gold pieces should continue to bear the fixed relation to the rupee; that for a time it might be necessary to permit the rupee to remain legal tender to an unlimited amount, which would involve temporarily the difficulty of a double standard; that the transition period of double standard should be as short as possible, silver being reduced to a token coinage, and being made legal tender up to a small amount only; and that gold should be ultimately the one legal standard."

He proposed the ratio of 10 rupees for 120 grs. of standard i.e. 110 grs. of fine gold.† but he did not share the temerity of Sir Charles Trevelyan.‡ So intent was he on the project of a gold currency that he was prepared to alter the ratio so as to make it favourable to gold. The question of ratio, he observed, was one which

> "the Government of India ought to be able to determine.

"Nevertheless, he said," I would not object to make the sovereign a legal tender for 10 rupees and 4 annas. But, the sovereign being worth 10 rupees and a fraction over, there might be some slight trouble of calculation in changing it for silver, and this would be a drawback in respect of the use of the sovereign as currency in India. And if this objection were urged, I would not press for the sovereign being declared legal tender. But we should continue, under any circumstances, to receive the sovereign in our Treasuries at the present rating."

† This was a ratio of 15 : 1, which was a slight undervaluation of gold.

‡ *Supra,* Chap. I.

These are questions which have been determined by every nation that has adopted a gold currency. No doubt it is a difficult and important problem, but it cannot be insoluble, and it ought to be solved."

Such in outline was the first proposal for a gold currency. It was projected before the fall in the value of silver had commenced, and was therefore more a culmination of the past policy than a remedy against the ensuing depreciation of silver. In that consisted, probably, the chief strength of the proposal. It was in good time to avoid the cost of hauling up the currency which later on proved so very deterrent and caused the defeat of so many other projects. Besides, it cannot be said that at the time the memorandum was presented the Government was not warned of the impending crisis; for the wave of demonetizing silver had already commenced two years before.* But, for some reason not known to the public, no action was taken on the proposal.

The second plan for the introduction of a gold currency was that of Colonel J. T. Smith, the able Mint Master of India. His plan was avowedly a remedy for the falling exchange.† The plan was set forth in the first essay in the brouchure, *Silver and the Indian Exchanges,*‡ and may be described in his own words as follows:—

"6. Although it cannot be denied that the difficulty of effecting this object of restoring the Indian exchange to its normal condition is much greater now than it would have been some years ago, owing to the decline which has already taken place, yet there seems to be sufficient ground for belief that, even now, if decided measures were adopted, it would not be too late to restore the currency to its former value for home (India)) payments; and that, too, without any shock or disturbance; the principal step being that of putting a stop to the coinage of silver on private account, at the

* Lord Northbrook, who was the Viceroy of India when this proposal was made, in his evidence before the I.C.C of 1898, Q. 8,447, suggested that the reason for his not adopting it then was that "that was a time when gold was appreciating, and it was impossible to do." This is, of course, historically untrue except on the hypothesis that the propsal came for consideration long after it was submitted.

† Ho had previously taken part in the agitation for the introduction of a gold standard in India during the sixties with the sovereign as the unit. But that was as an advocate of the movement for uniformity of international coinage. Cf. his *Remarks on a Gold Currency for India and Proposal of Measures for the Introduction of the British Sovereign,* etc., etc. London, 1868.

‡ London, Effingham Wilson, 1876.

same time taking measures to discourage the importation, or at the least the circulation, of foreign-made, silver coins, and opening the Mints for the receipt of gold bullion for coinage.

" 7. To explain how this would operate, I must observe that

"8. ... the internal trade of the Empire of India has increased and is increasing.............................

"9. Whatever may be the cause, the internal trade of India has, ever since the beginning of this century, required constant and steady additions to her currency, averaging during the last thirty-eight years upwards of five millions of pounds sterling per annum in value. Besides this, the returns show that the balance of imports over exports of gold bullion, during the same period, exceeded an average of two and a half millions sterling annually, having been, during the last twenty years, more than four millions per annum.

"10. Such being the case, it apears to be a necessary consequence that, if the supply of rupees were put a stop to, the remainder must increase in local value, as compared with commodities, till they resumed the position which they held on a par with gold, at the rate of 10 rupees to a sovereign, for the fifteen years previous to 1870.

"11. After that point had been attained, it would be the interest of merchants to take gold into the Indian Mints for coinage; and they would do so, indeed, before the attainment of this improvement of the exchanges, owing to the premium or 'batta' which would at first be obtained for the gold coins.

"12. By this means gold would gradually be brought into India; and, as it has been shown that an addition to the circulating medium of at least five million sterling per annum is necessary, and no more silver coins being admitted (into the currency), it will slowly accumulate there.................

"13. The proposal therefore is that, after due notice, the coinage of silver on behalf of private individuals and advances upon silver bullion should be suspended; that part of the Act 23 of 1870, which makes it incumbent on the Government to receive and coin it, being repealed; the Government retaining in their own hands the power of replenishing the silver currency whenever they may deem it expedient. That

> gold bullion should be received by the Government at the mint rate of 38 rupees 14 annas per standard ounce, and coined into sovereigns and half-sovereigns (representing 38 rupees 15 annas), or ten or five rupee-pieces of the same value, which should be declared legal tender, but not demandable, the present silver rupees continuing to be legal tender, as before.'*

At the time the Smith plan was presented, the fall of silver had made itself felt so that a considerable support in favour of the plan was forthcoming. The support of the trading community was embodied in the resolution, dated July 15, 1876, of the Bengal Chamber of Commerce, which urged "that it was expedient, in view of any ultimate measures that the Government may adopt, that Clause 19 of Act XXIII of 1870, making it obligatory on the Mints in India to receive all silver tendered for coinage, and also Section II, Clause (*b*) of Act III of 1871, making it obligatory on the Currency Department to issue notes against silver bullion sent in, be temporarily suspended, at the discretion of Government, and that during each such suspension or till further notice it be not lawful to import coined rupees from any foreign port." A similar feeling was voiced by the Calcutta Trades Association. By this time the fall of exchange had also commenced to tell upon the finances of the Government of India, so much so that Sir William Muir, in his Financial Statement for 1876-77, was led to observe :—

> " The sudden depreciation of silver and the consequent enhancement of charge to the Government of India in laying down yearly the sum required in England of about fifteen millions sterling, without doubt cast a grave shadow on the future. In truth, it may be said that the danger, from whatever point of view considered, is the gravest which has yet threatened the finances of India. War, famine, and drought have often inflicted losses on the Exchequer far greater than the charge which threatens us in the present year. But such calamities pass away; the loss is limited; and when it has been provided for the finances are again on sure and stable ground. This is not the case with the present cause of anxiety. Its immediate effects are serious enough. .... But that which adds significance to it is that the end cannot be seen;

* This was calculated to make the rupee-sterling exchange 2 s. gold. The average rupee-sterling exchange in 1876 was about 1s. 9.645d. This would have placed a small premium on gold which would have no doubt soon disappeared owing to the appreciation of the rupee consequent upon the stoppage of its coinage.

the future is involved in uncertainty.'*

In the face of such a situation nothing would have been more natural than to expect the Government precipitating into some kind of action to save itself, if not others, from an impending calamity. Far from taking immediate steps, the Government not only failed to take any initiative, but showed, when pressed by the Bengal Chamber of Commerce to act upon the foregoing resolution, a surprising degree of academic somnolence only to be expected from an uninterested spectator. No doubt the proposal of the Bengal Chamber was defective in that it did not suggest the opening of the Indian Mints to the coinage of gold. The Government of India was sharp enough to fasten upon this defect. It made plain to the Chamber that if it had proposed the free coinage of gold.

> "such a recommendation would not have been open to the objections that appear fatal, *in limine,* to the adoption of the resolution actually adopted...... viz. to close the Mints temporarily to the free coinage of the one metal into legal-tender money, without simultaneously opening them to the free coinage of the other into legal tender money.'

Did it, then, adopt the proposal of Colonel Smith, which contained such a recommendation ? Not at all! Why did it not, then, adopt a remedy to which it saw no objections ? The reason was that it had arrived at a different diagnosis of the causes of the monetary disturbances. To the Government the possibilities of explaining "the disturbance in the equilibrium of the precious metals" seemed to be many and varied.† (1) The value of gold being unchanged, the value of silver had fallen ; (2) the value of silver being unchanged, the value of gold had risen ; (3) the value of gold had risen, and the value of silver had fallen ; (4) the value of both metals had risen, but the value of gold more than that of silver; (5) the value of both metals had fallen, but the value of silver more than that of gold. In the midst of such possibilities, marked, more by pedantry than logic, the Government warned the currency reformers that

> "the character of the remedies indicated, if the disturbance is found to be due to a rise in the value of gold, will obviously

* P. 93.

† Cf. The Resolution of the Government of India relating to the Depreciation in the Value of Silver, dated September 22, 1876, par. 6, Commons Paper 449 of 1893.

differ from what would be suitable in the case of a fall in the value of silver."*

Out of these possibilities what seemed to it to be proven was that "gold had risen in value since March, 1872,"† and therefore if any reform was to be effected it should fall upon the gold-standard countries to undertake it. Situated as the Government of India then was, it could have suffered itself without incurring much blame to be hurried into some kind of currency reform that promised to bring relief. To have refused to allow the exigencies of a crisis to rule its decisions on such a momentous issue as the reform of currency, need not imply a spirit of obstinacy. On the other hand, it bespeaks a spirit of caution which no reader of that illuminating despatch of October 13, 1876, conveying to the Secretary of State its decision to wait and watch, can fail to admire. But it is hardly possible to speak in a similar commendatory manner of the underlying attitude of the Government of India. Whether it is possible to hold that gold had appreciated but that silver had not depreciated may be left for logician to decide upon. But for a silver-standard country to refuse to undertake the reform of her currency system on the plea that it was gold that had appreciated was no doubt a tactical error. In military matters there is probably such a thing as depending on a position; but in currency matters there cannot be such a thing. The reason is that in the former strength sometimes lies in the weakness of the other. But in the case of the latter the weakness of one becomes the weakness of all. There can be no doubt, therefore, that the Government, in discarding its responsibility to do the needful in the matter, committed the same kind of mistake as a man who, in the words of Prof. Nicholson,‡ "should suppose that the ship cannot sink because there is no leak in the particular cabin in which he happens to sleep."

That the attitude of inaction was unwise was soon brought home to the Government of India. Within a short space of two years it was obliged to reconsider the position taken in 1876. In a despatch dated November 9, 1878,§ the Government of India observed :—

"5. It was to have been expected that a subject so encompassed with difficulties should not receive any early

* Commons Paper 449 of 1893.

† *Ibid,* par. 16.

‡ *Money and Monetary Problems,* 1895., p. 90.

§ P. P., C. 4868. of 1886, p. 18.

settlement, and it was probably the wisest, as it was certainly the most natural course, to allow further time to elapse before attempting any final solution of the grave problem it involved. The improvement that took place in the value of silver in the year 1877 favoured this policy in action; and it is only now, when a fresh fall has brought down the rupee to a value hardly greater than that which it had in July, 1876, that the serious nature of the risk which our existing currency law entails on us is once more forced on our attention by its practical effects on the Home remittances.

* * *

"21. The uncertainty that has now for some years prevailed with reference to the value of silver, and the consequent disturbances in the exchange, have...... been causes of continued financial difficulty to the Government...... and it is not possible to doubt that similar results must have been produced by these disturbances in the trade transactions of the country, or that investments of foreign capital in India, either for trading or other purposes, must have been very seriously interferred with by their influence.

"23. Such we hold to be a true statement of the present difficulties and prospective risks of maintaining the existing Currency Law, and we feel assured that they have not been in any way overstated. It remains for us to inquire whether any practical remedy could be devised that should not be open to serious objections, or the risks attending the adoption of which should not be so great as to prohibit it. We feel most fully the heavy responsibility that will rest on us in dealing with the currency of India ; but it is plain that the responsibility for doing nothing is no less great. Whether the law is left as it is, or whether it is changed, the result will be equally due to our action, and we cannot, if we would, avoid facing this grave question.

"24. To obtain fixity of exchange by the adoption of a gold standard, and the substitution of a gold for a silver currency through the direct action of Government, has, we think, been conclusively shown to be impracticable by the despatch of the Government of India of October last, and this plan therefore calls for no further notice. The increase in the weight of the rupee, also noticed in that despatch, is equally undeserving of attention, as in fact, it would give no security for the future, and would entail a heavy charge without accomplishing the esssential point to be aimed at. There remains the simpler, and first proposed suggestion, the limitation of the coinage of silver, which, though rejected in 1876 by the Government of india...; appears to us to call now for a closer examination.

"25. This suggestion in its main features is, that the Coinage Act shall be so far modified as to withdraw the free right of the public to take silver bullion to the Mint for coinage, and either to suspend it entirely in future, or limit it for a time.

"26. It is obviously an essential part of any such scheme, if it is to have the effect of fixing the exchange value of the rupee, that the power of obtaining that coin in future shall be regulated in some manner by a gold payment, and that the relation between sterling and rupee currency shall thus be fixed irrespective of the fluctuations in the relative value of the metals of which the coins are formed.

"27. It is not, on the other hand, an essential part of such a plan that any particular relation of value should be thus fixed at two shillings...... or at any smaller or larger proportion. All that is necessary is that the rate, being once fixed, shall remain for the future unchanged.

* * *

"33. Probably the most important question is ...... whether or not it is practicable to maintain a silver coinage as the principal element in our currency, with a very limited gold coinage, or without a legal-tender gold coinage at all. The Government of India, in its despatch of 1876, expressed an opinion adverse to the possibility of maintaining such a system...... On a full reconsideration of this point, we are led to take the opposite view, and to think that such a system would be perfectly practicable and would lead to no material difficulty. It is true that there is no country in which such a condition of things actually exists. But those countries, and there are many of them, in which an inconvertible paper currency exists or has existed, give proof that the far greater anomaly of a currency devoid of any intrinsic value whatever is capable of performing the work of a metallic currency satisfactorily, and of maintaining its local exchange value, so long as an excessive issue is only guarded against.

* * * *

"37. (Such) instances (as the British shilling and the French five franc piece) seem to show that neither in the way of surreptitious coinage, nor of discredit from depreciation of intrinsic value, it is probable that there would be any serious difficulty in keeping the rupee in circulation at its present weight, at a nominal value of two shillings, with a gold standard and a partial gold coinage.

* * *

"46. We are thus led to the general conclusion that it will be practicable, without present injury to the community as a whole, or risk of future difficulties, to adopt a gold standard, while retaining the present silver currency of India, and that we may thereby in the future fully protect ourselves from the very real and serious dangers impending over us so long as the present system is maintained. We consequently desire to recommend to Her Majesty's Government the adoption of such a change at the earliest moment possible, and we shall proceed to explain, in all necessary detail, the measures by which we advise that it should be effected.

* * *

"50. It has to be borne in mind that it is not the object of our action to force on India a gold currency, or to displace the silver currency, but rather to avoid such a result, or to check the tendency in that direction, so far as it can be done consistently with the adoption of the gold standard. We are consequently led to the conclusion that, while we give certain facilities for the introduction of gold coins into India, we should not yet go so far as to declare them a general legal tender; and that we should at the same time, make provision for the coining of silver, without limit as to quantity, but on terms that will give no advantage to the introduction of silver in relation to gold.

"51. These objects we propose to attain as follows:—We first take power to receive British or British Indian gold coin in payment for any demands of the Government, at rates to be fixed from time to time by the Government, till the exchange has settled itself sufficiently to enable us to fix the rupee value in relation to the pound sterling, permanently at two shillings. Simultaneously with this, the seignorage on the coining of silver would be raised to such a rate as would virtually make the cost of a rupee, to persons importing bullion, equal in amount to the value given to the rupee in comparison with the gold coins above spoken of. We should thus obtain a self-acting system under which silver would be admitted for coinage, at the fixed gold rate, as the wants of the country required; while a certain limited scope would be given for the introcduction and use of gold coin, so far as it was found convenient or profitable."

Such was the scheme outlined by the Government of India. The reason why it rejected the Smith plan, although it was simple, economical, and secure, was because it contemplated a demand by India on the world's dwindling stock of gold. Now, in the circumstances then existing, this was a fatal defect, and the powers-that-be had already decided that at all cost India must be kept out of what was called the " scramble for gold." Therefore, to have proposed an effective gold standard was to have courted defeat. A mild and diluted edition of a gold standard such as was proposed by the Government was all that stood any chance of success. But even this timid attempt did not fare well at the hands of the Committee* appointed jointly by the Secretary of State and the Chancellor of the Exchequer to examine and report upon the proposals. The members of the Committee were " unanimously of opinion that they cannot recommend them for the sanction of Her Majesty's Government."† The reasons which led to the rejection of the proposals we are not permitted to know. Although the Report of the Committee was made public, the proceedings have never seen the light of day. Indeed, there has been a most stern and obstinate refusal on the part of the officials to allow a peep into them. Why they should be regarded as confidential after a lapse of nearly half a century it is difficult to imagine. Enough, however, was revealed by Sir Robert Giffen, who was a member of this

* It was composed of Louis Mallet, Edward Stanhope, T. L. Seccombe, R. E. Welby, T. H. Farrer, R. Giffen, and A. J. Balfour.

† For Report of the Committee, *see* Commons Paper C 4868 of 1886, p. 26.

Committee, in evidence before the Indian Currency Committee of 1898* for us to know the contents of this closely guarded document. It seems that the Committee declared against the proposals because it thought they were calculated to make the Indian currency a "managed" currency. At the time when the Committee delivered its opinion the current prejudice was unanimously against such a system. All acknowledged writers on currency were pronounced opponents of an artificially regulated system.† A naturally automatic currency was their ideal. In addition to being misled by this prejudice, the Committee felt convinced that the situation would soon ease itself by the natural working of economic forces without necessitating a reform of the Indian currency. This conviction on the part of the Committee was founded on the high authority of the late Mr. Walter Bagehot‡ that the disturbance could not but be temporary. His argument was that the depreciation would encourage exports from India, and discourage imports, and the unfavourable balance of trade thus brought about would induce a flow of silver to India, tending to raise its price. He was also of opinion that increased demand for silver would also arise from outside India. He argued that the reduction of demand caused by the demonetization of silver by some countries would be more than compensated for by the adoption of silver by other countries then on a paper basis for their impending resumptions of specie payment.

Whatever might be said with regard to the Committee's preference of a natural to an artificial system of currency, there can be no doubt that in turning down the proposals of the Government, in the hope that silver would recover, it was grossly deceived. The basic assumptions on which the Committee was led to act failed to come true. To the surprise of everybody India refused to absorb this "white dirt." Indeed, it was one of the puzzles of the time to know why, if silver had fallen so much

* Q. 10,025-50

† So novel was the idea at the time that the United States Monetary Commission, 1876, was surprised when some of the witnesses expressed themselves in favour of regulating the principal metallic unit of account in the currency system of a country by Government agency. *See* 44 Congress 2nd Session Senate Document, No. 703 p. 47-48.

‡ Cf. his *some Articles on the Depreciation of Silver, and on Topics connected with it,* London, 1877; pp. 10, 55, and 80; also his evidence before the Select Committee on the Depreciation of Silver, Lords Paper 178 of 1876, Q. 1,361-1,450.

in Europe, it did not go to India in larger quantities. Many blamed the Secretary of State for the sale of his Council Bills.* These bills, it was said, presented an alternative mode of remittance so much better as to prevent the sending of silver to india, and thereby caused a diminution in the demand for it. That this was not a correct view is obvious.† Silver could not have gone to India more than it did even if Council Bills had been abolished. Council Bills must be regarded as ordinary trade bills drawn against services and commodities, and could not be said to have competed with the transmission of bullion in any special manner different to that attributable to the trade bills. The only bearing the Council Bills may be said to have had upon the issue in question lies in the fact that to the extent they figured in the transactions they prevented India from buying other commodities. But there was nothing to prevent her residual buying power left over after paying for the Council Bills from being utilized in the purchase of silver in preference to other commodities. That this buying power would be used in purchasing silver because it was depreciated in Europe was theoretically an unsound assumption on the part of Mr. Bagehot. The deciding factor which could have caused such a diversion of this residual buying power to the purchase of silver was whether it was *appreciated in India.* Only on that condition could there have been a flow of it to India. But as matters then stood, it was the opinion of Prof. Pierson‡ that when the general depreciation of silver commenced all over the world, it had been forestalled in that part of the globe in which India lies. India was already glutted with silver. Under ordinary circumstances India would have sent back a large portion of its silver to Europe. But the general depreciation prevented her from doing so; and now there were two opposing forces, one tending to produce an export of silver from India to Europe and the other tending to produce an export of silver from Europe to India; and, although the latter was the stronger of the two, the former was sufficiently powerful to prevent any considerable quantity of silver from being exported from Europe to India. If the Committee was deceived in one part of its assumptions, it was also disappointed

* This argument was prominently put forth in the *Report* (pp. xxx—xxxv) of the *Select Committee on the Depreciation of Silver.,* 1876; and also by Monometallic Members of the Gold and Silver Commission, 1886, Cf. pp. 77-79 of the final Report, Part II.

† Cf. evidence of Professor Marshall before the Gold and Silver Commission, 1886, Q. 10,164-76.

‡ Cf. his reply to the Circular of the Gold and Silver Commission, 1886. Second Report, App. VII (1), p. 254.

in others. Far from resuming specie payments in terms of silver, as Mr. Bagehot expected the countries then on paper basis to do, they one and all demonetized silver to the great disappointment of all those who adhered to the policy of "wait and see."

The falsification by India and other countries of such anticipations led to a change in the angle of vision of most of the European countries who had theretofore shown no inclination to do anything by way of reducing the chaotic currencies to some kind of order. They were advised by eminent authorities not to hurry. Jevons said* :—

> "We only need a little patience and a little common sense to surmount the pratical difficulties. Within the next few years good harvests in India will, in all probability, enable that country to buy up all our suplus silver, as it has been in the habit of doing, with rare exceptions, since the time of Pliny...... In future years any amount of silver could be got rid of without loss, if it be sold gradually and cautiously."

When, however, it was found that the waiting period would be more painful if not longer than what it pleased the proverbial peasant to undergo, in order to let the stream run dry so as to permit of his forbidding it without wetting his feet, there grew up an agitation in Europe to undertake the necessary reform to prevent the depreciation of silver.

Far from being sentimental, the agitation was real and derived its force from the evils which arose out of the existing currency conditions. The monetary condition of most of these countries was very unhealthy. Their schemes of an effective gold standard with silver as token currency were arrested in the midst of their progress. Germany, when she demonetized silver, had retained her silver thalers as full legal tender at the old ratio with gold, only to get time to be rid of them to the extent necessary to reduce them to a truly subsidiary position. But, before she could do so, her policy of demonetization had commenced to tell upon the value of silver, and the continued fall thereof compelled Germany to retain the thalers as legal tender at their old value, despite the fact that their metallic value was fast sinking. Precisely the same was the result of the action of the Latin Union on their system of currency. They had stopped their further

* Op. cit., p. 354.

coinage of the silver five-franc pieces ; but they could do nothing with those that were already coined except to permit them to circulate at the old mint par, although the metallic par continued to change with changes in the market values of gold and silver. The United States was also involved in similar evils, although they arose from choice rather than from necessity. Yielding to an agitation of the silver men, it passed in 1878 a law called the Bland Allison Act, requiring the Secretary of the Treasury to purchase and coin each month not less than $2,000,000 and not more than $4,000,000 worth of silver bullion into standard silver dollars, which were to be full legal tender for all debts public and private," except where otherwise expressly stipulated in the contract,"* As the metalic value of these dollars fell with every fall, while their legal value remained as before, they became, like the thalers and the francs, overvalued coins. It is clear† that when the stock of a country's currency is not equally good for all purposes it is relatively speaking in an unsatisfactory condition. Though good for internal purposes, these coins were useless for international payments. Besides making the whole currency system unstable and top-heavy, they could not be made to serve the purpose of banking reserves, which it is the *prime* function of a metallic currency to perform in modern times. The possibilities they opened for illicit coinage were immense. But what made their existence such a source of menace was the fact that a large proportion of the total metallic money of these countries was of this sort. The figures given by Ottomar Haupt in Table XXIII (*see* p. 461) prove sufficiently the difficulties that these countries had to face in regulating and controlling such a mass of token currency.

If a gold-standard country like England had escaped these difficulties it was only to meet others equally embarrassing. As has been pointed out before, the continued fall of prices, the reflex part of the appreciation of gold, had produced a depression in the trade and industry of the country never known before in its history. Apart from this, the monetary disturbances affected the yield on capital investment, the mainstay of so many of her people, by reducing the field for its employment. Said the American Commission :—

* *Report of the Monetary Commission of the Indianapolis Convention,* Chicago, 1898,pp. 138-45.

† Cf. the speech of Prof. Pierson, Delegate of the Netherlands at the International Monetary Conference of 1881, *Report of the Delegates of the United States,* Cincinnati, 1881, pp. 77-84.

> "Within twenty years from 1877 to 1897, it could probably be correctly stated that the power of money to earn dividends was reduced to one-half, or in nearly that proportion. That reduction of the earning power of capital affected injuriously everybody who depended upon investments for a living. It affected also the profits and enterprises of the captains of industry and the kings of finance. In England and in France the price of Government securities rose to a point which made it no longer possible for the man of small means to invest in them and acquire an adequate support during his declining years."*

It is, of course, open to doubt whether the conclusion drawn is the right one. But the fact remains that owing to monetary disturbances the field for the investment of English capital had become considerably restricted. And, as a way of getting a living, capital investment was an important resource to the English people.

To mend such a situation there were convened one after another three International Monetary Conferences to establish a bimetallic par between gold and silver. The first International Monetary Conference was convened at Paris in the year 1878 at the invitation of the United States. The second met at the same place in 1881 at the joint call of France and the United States. The third and the last assembled by the wish of United States in Brussels during the year 1892.

From the gravity of the situation nothing could have been more natural than to expect these Conferences to fructify into an agreement upon the consummation of the project for which they were called into being. But, far from reaching any agreement, the deliberations of these Conferences proved to be entirely futile. Only the second Conference showed any sign of agreement. The first and the third marked a strong deviation in the opposite direction. The advance, if any, that was made, as a result of these deliberations, was summed up in the pious opinion that it was necessary to retain and enlarge the monetary use of silver. But so weak on the whole was the response that practice failed to testify as to the sincerity of this solemn declaration.

* Report on the Introduction of the Gold-exchange Standard into China and other Silver-using Countries by the Commission on International Exchange. 58th Congress, 2nd Session, House of Representatives Docment, No. 144, Washington, 1903, p. 101.

TABLE XXIII

DISTRIBUTION OF THE STOCK OF MONEY IN DIFFERENT COUNTRIES *

Countries.		Monetary Circulation at the *Beginning* of 1892.				
		Gold.	Silver.	Uncovered Notes	Fractional Currency.	Billon Money.
Austria . .	fl.	65,000,000	197,000,00	601,000,000	40,000,000	14,000,000
England . .	.£	118,000,000	—	10,000,000	26,000,000	1,900,000
France . . .	fr.	3,900,000,000	3,200,000,000	572,000,000	280,000,000	280,000,000
Germany . .	m.	2,500,000,000	430,000,000	450,000,000	457,000,000	57,000,000
Holland . .	fl.	64,000,000	135,000,000	98,000,000	7,600,000	1,800,000
Italy . . .	li.	485,000,000	81,000,000	847,000,000	150,000,000	75,000,000
Russia . . .	.£	59,500,000	—	51,200,000	8,200,000	1,000,000
Spain . . .	pes.	160,000,000	646,000,000	548,000,000	190,000,000	157,000,000
U.S.A. . .	doll.	671,000,00.0	458,000,000	419,000,000	77,000,000	18,000,000

*The figures are as given by Ottomar Haupt (London: Effingham, Wilson & Co., 1892, p. 160.)

The reasons for the failure of these Conferences to reach a bimetallic agreement have not been properly understood. One cannot read the debates on bimetallism at these Conferences without observing that the opposing parties approached the subject with different objectives. To one the principal objective was the maintenance of a stable ratio of exchange between gold and silver irrespective of the question whether one or both remained in circulation; to the other it was the maintenance of the two metals in concurrent circulation. As a consequence of this difference in the lines of their approach an agreement on a bimetallic project became well-nigh impossible.

The workability of bimetallism in the sense of maintaining a stable ratio between gold and silver is necessarily an indefinite proposition. Nonetheless, it cannot be said, if the debates at these Conferences are taken as a guide, that the possibility of a successful bimetallic system in the stable-ratio sense of the term had been denied by the majority of economic theorists, or by the Governments who met at these Conferences. On the other hand, the Conference of 1881, the most important of the three, was remarkable for its confession regarding the workability of the system. All Governments, barring a few minor ones, were in favour of it. Even the British Government, in consenting to bring into operation the silver clause of the Bank Charter Act, must be said to have given its word of approval.

But what did bimetallism promise, as a piece of mechanism, to maintain the two metals in concurrent circulation ? The bimetallists used to cite the example of France in support of the stability of the double standard. But was there a concurrent circulation of two metals in France under the bimetallic system ? Far from it. For, although it was a virtue of the system that changes in the production of the two metals made no appreciable variations in the fixed ratio of exchange, yet the slightest of such as did occur were sufficient to effect the greatest revolution in the relative circulation of the two metals, as the following table clearly brings out:—

TABLE XXIV

MINTAGE OF GOLD AND SILVER IN FRANCE*

Period	Gold Million Francs	Silver Million Francs	Ratio of Value
1803 to 1820 ...	868	1,091	1 : 15.58
1821 to 1847 ...	301	2,778	1 : 15.80
1848 to 1852 ...	448	543	1 : 15.67
1853 to 1856 ...	1,795	102	1 : 15.35
1857 to 1866 ...	3,516	55	1 : 15.33
1867 to 1873 ...	876	587	1 : 15.62

* Table submitted to the Paris International Monetary Conference of 1881 by M. Pierson, Delegate for the Netherlands.

In mitigation of this, the bimetallists had nothing to offer. There were, no doubt, such schemes as the one proposed by Prof. Marshall, consisting of paper based on a linked bar of gold and silver in certain fixed proportions,* having the object of converting this "either-metallism" into double-metallism. But such schemes apart, the free-mintage-cum-fixed-ratio plan of bimetallism gave no guarrantee against alternation in the circulation. Indeed, under that plan the alternation is the very soul of the mechanism which keeps the ratio from being disturbed. The only thing the bimetallists could say in mitigation of this was that† the alternation in currency would confine itself to bank reserves and would not be extended to the pockets of the people. This was only an eyewash,‡ for how could the banks arrange their reserves except in conformity with the prejudices of the people ? Even international agreement to use gold and silver at a fixed ratio was no guarantee that this concurrent circulation would be maintained. Stability of ratio did depend to a large extent upon an international agreement, for, although it could be maintained by the action of one nation, the deviations of the ratio in that case would probably be greater. But mere international agreement has no virtue of itself to prevent one metal driving out the other. To suppose that Gresham's Law is powerless under international agreement is a gross mistake. Gresham's Law is governed by the relative production of the two metals to the total currency needs of the movement. Supposing the production of one metal relatively to the other was so enormous as to more than suffice for the currency needs, how could international agreement prevent the former from driving the latter entirely out of circulation ? On the other hand, international agreement, far from discouraging, would encourage the process.

In adopting bimetallism, therefore, the nations had to make a choice between a stable ratio and a concurrent circulation, for there might arise a situation in which there was a stable ratio

* Cf. *Contemporary Review* for March, 1887. it is interesting to note that essentially the same plan was suggested 115 years before Prof, marshall by James Stewart when his advice was sought by the East India Company as to the method of reforming the then chaotic currency of Bengal. He refrained from pressing it upon the Company because he thought "mankind were not all philosophers." Cf. his *Principles of Money as applied to the Present State of the Coin of Bengal* (2nd Edition, 1772), pp. 8-11; cf. also William Ward, On Monetary Derangements, in a *Letter addressed to the Proprietors of Bank Stock,* London, 1840, p. 8.

† Cf. Prof. Foxwell, *Oxford Economic Review,* 1893, Vol. III, p. 297.

‡ Cf. the reply by Prof. Cannan, *ibid.,* p. 457.

but no concurrent circulation of both the metals. If the Conferences broke down, it was not because they did not recognize the possibility, which was unanimously upheld by such an impartial tribunal as the Gold and Silver Commission of 1886, of a stable ratio being maintained under a bimetallic regime. They broke down because the bimetallic system did not guarantee the concurrent circulation of the two metals. However, it is certain the impossibility of concurrent circulation could not have been such a drawback if the immediate effect of bimetallism would have been a flow of gold into circulation. But as matters then stood the immediate effect would have been to bring silver into circulation. It was this more than anything else which scared away most of the nations from the adoption of the bimetallic system. Now, it is a curious thing that nations which had assembled together to bring about a stable ratio between gold and silver should have rejected a system which gave a promise of such a stability on the comparatively less significant ground that it had the effect of altering the composition of the circulation from gold to silver. But the fact must be recognized that at the time the question of reconstituting the bimetallic system was agitating the public mind, in most of the European countries gold and silver had ceased to be regarded as equally good for currency purposes. The superiority of gold to silver as a carrier of large value in small bulk was coming more and more to be appreciated in the latter part of the nineteenth century, and no plan of stabilization which did not provide for the unhindered circulation of gold was likely to meet with common approval. This prejudice was in no way confined to a gold-standard country like England. The closing of the Mints by the Latin Union is a proof positive of the change in the attitude of the bimetallic countries. As Jevons argued*:—

> "So long …… as its operation resulted in substituting a beautiful coinage of napoleons, half-napoleons, and five-franc pieces in gold for the old heavy silver ecus, there was no complaint, and the French people admired the action of their compensatory system. But when [after 1873] it became evident that the heavy silver currency was coming back again …… the matter assumed a different form."

* *Money and Mechanism of Exchange,* 1890, p. 143.

So great was the prejudice in favour of gold that the interests of the chief Powers in the various Conferences, it may be truly said, waxed and waned with the changes in the volume of their gold reserves.* In 1878, the United States took the lead in calling the Conference because the working of the Bland Allison Act checked the inflow of gold necessary for its cash payments. Germany was indifferent because she had enough gold and was confident of selling off her demonetized silver without loss. In 1881 France and Germany showed more anxiety for reform because the former had lost all her gold and the latter was unable to palm off her silver. By 1892 none was so poorly supplied with gold as was the United States, largely as a result of a reckless policy which did her harm without doing good to anyone else, and she was therefore left alone to support the cause of silver.

Possessed as almost every Government was by this prejudice for gold, it was not an ineradicable prejudice. What the countries wanted was a lead from an influential nation. Throughout the debates at these Conferences one thing stood out very clearly. If England could have brought herself to adopt a bimetallic system, others, like sheep, would have followed suit. But she was too much wedded to her system to make a change, with the result that bimetallism, as a way out of the currency difficulties, became a dead project. The vanishing of the prospect of re-establishing the bimetallic system as a result of her obstinacy was a small matter to the European countries. They had virtually made gold, the international form of money, as the basis of their currency, and were therefore quite indifferent as to the issue ; but it was a terrible blow to the hopes of India. After the proposal of 1878 had been turned down, bimetallism was considered by the Government of India as the remedy, and its advent looked forward to for salvation. It is true that in the beginning of bimetallic discussions the attitude of the Indian Government was rather lukewarm. In a despatch dated June 10, 1881,† to the Secretary of State, it was revealed that the Government of the time was divided in its opinion regarding the merits of bimetallism. The Viceroy and another member of Council refused their support on the ground that bimetallism was unsound in principle,‡ and even the majority who thought

* Cf. *The Report of the Indian Delegation to the International Monetary Conference of* 1881, C 3229 of 1882, p. 7 ; also Russell, op. cit., pp. 374-5.

† P.P.C 3229 of 1882, p. 33 *et seq.*

‡ *Ibid, p.* 37.

differently on this aspect of the question were not then prepared to go to the length of joining a bimetallic union, although they did not see any objection to doing so "if a sufficiently large number of other Governments were prepared to join" in it. With the growth of their financial difficulties, however, this slender faith in bimetallism considerably deepened, so much so that in 1886 the Government addressed to the Secretary of State a despatch* urging him to take the initiative in calling an International Monetary Conference to establish a stable ratio between gold and silver. So intense was its interest in the consummation of bimetallism that it did not hesitate to administer a sharp rebuke to the Treasury when they negatived its suggestion referred to them for consideration by the Secretary of State.† With such feelings of faith and hope the Government of India entered these international Conferences and watched their fortunes. But no Government could have been treated with such suspicion and injustice as was the Government of India. Its admission to the bimetallic union was desired by none of the Powers, not even by England.‡ It was treated as a villain whose advances were nothing but manoeuvres to pounce upon the already dwindling stock of gold. Not only was it planned to keep India out of the bimetallic union, but she was to be required to pledge herself not to take a mean advantage of the union after its efforts had succeeded in establishing a stable ratio by making gold legal tender.§ All these guarantees the Government of India had offered in a pathetic faithfulness to the cause of bimetallism, on the success of which it had depended so much. Consequently, when the attempt failed, the disappointment caused to the Government of India almost broke its heart. It is not too severe to say that the part played by the British authorities in causing this disappointment was highly irresponsible—one might almost say wicked. They forced India against her declared wishes to keep to the silver standard, partly to trail her off from making any demand for gold, and partly to silence the criticisms of other nations that Britain was not taking

* Dated February 2, 1886, see C. 4868 of 1886, p. 5 *et. seq.*

† Cf. the despatch of September 4, 1886, App. II to the *First Report of the Royal Commission on Gold and Silver,* 1886.

‡ Cf. the evidence before the Gold and Silver Commission of 1886 of Mr. S. Smith, Q. 4,825-30 ; also of Mr. Watney, Q. 9,427.

§ Cf. *The Report of the Indian Delegates, p. 12.*

her share in the matter of rehabilitating silver.* This was not the only advantage exacted from a country bound to obey. On the one hand it restrained the Government of India from taking any independent line of action in the matter of currency reform, and on the other such means as were calculated to make good the losses which arose from a depreciating currency were subjected to Parliamentary censure. The House of Commons was twice moved, once in 1877 and again in 1879, to resolve that the Government of India should lower its tariff, ostensibly in the interest of free trade, but really in the interests of relief to the depressed condition of Lancashire. The consequence was that the Government could not tap one important source of its revenue in times of its greatest adversity. The only adequate recompense, the British authorities could have made to a Government so completely paralysed by their dictations, and of whose interests they so loudly claimed to be the lawful trustees, was to have consented to join the bimetallic union, the consummation of which only waited upon their grace. But, as is well known, they did nothing of the kind, so that, after a period of enforced waiting and by no means unavoidable suffering, the Government of India, at the end of 1893, found itself just where it was at the beginning of 1878.

Like all common-sense people who pray and yet do not fail to keep their powder dry, this interval was utilized by the silver-ridden countries, with the exception of the United States, in strengthening their gold basis no less than in attending the deliberation of the Monetary Conferences on the amusing plans for extending the use of silver.† Mr. Goschen, at the Conference of 1878, had quite philosophically remarked that States feared to employ silver because of its depreciation and the depreciation continued because the States feared to employ it. Now, if the first part of the diagnosis was correct, we should have found the States seriously engaged in the task of rehabilitating silver when its price was propped up by the silver legislation of the United States. On the other hand, just so far as the monthly purchases of silver, under the Bland Allison Act of 1878, or the Sherman Act of 1890, held up the price of silver, not only did they not feel anxious to take steps to restore it to its former

* Cf. the speech of Mr. Goschen at the International Monetary Conference of 1878, Third Session. Report of the American Delegates, Senate Executive Document, No. 58, Forty-fifth Congress, Third Session, Washington, 1879, pp. 50-52.

† Cf. for the variety of plans suggested at the Conferences *The Report of the American Delegates to the International Monetary Conference of* 1892, Washington, 1893.

position, but they actually took advantage of the rise to discard it.* And it is not possible to blame them either, for with the prospect of a bimetallic union vanishing into thin air the accumulation of this dead weight would have only ended in a gratutious embarrassment. India alone refused to profit by the squeeze, which the United States took vicariously for other nations, and allowed precious time to slip by, with the result that it was thrown back upon the same remedy, the adoption of which was negatived in 1878.

If it was to be a gold standard it would have been better if it had been done in 1878. The plan then outlined by the Government of India was no doubt too complicated and too flimsy to be practicable. But its rejection should not have altogether suspended the introduction of a gold standard. If it was to be one of an orthodox kind on the English pattern, it would have no doubt involved some cost to the Government in being obliged to sell at a reduced price a part of the silver stock of the country in order to give the rupee a subsidiary position and to fill the void by a gold currency. The cost of this conversion in 1878 would have been inconsiderable, for the fall of silver from its normal gold price was only 12½ per cent. On the other hand, if it was to be on such an unorthodox plan as that of Colonel Smith, it would have involved no cost at all to the Government† beyond that involved in the installation of new machinery for the coinage of gold at the Mint. But in 1893 both

* Cf. Russell, op. cit., p. 410 ; also Prof. F. A. Walker, "The Free Coinage of Silver," in *The Journal of Political Economy* (Chicago), Vol. I, p. 174.

† So evident was this the case that the London *Times,* although it did not agree that any change was then urgently called for, yet observed in the leading article in its issue of October 25, 1876, p. 9, cl. 2 : "The Governor-General in Council dismisses the suggestion of a gold standard on the ground that the present condition of affairs, bad as it is, does not call for so costly a remedy ; but this involves a misconception of the proposal. The substitution of a gold for a silver currency in India would be a most extensive and costly operation, but to refuse to coin silver and to offer to coin gold for all comers would involve no cost beyond that of new machinery. If it was announced that after a certain day the coinage of silver was suspended, and that gold could be coined instead, for whoever might bring it, in coins that would be exchangeable for rupees at a fixed rate, there would be introduced into India the bimetallic system prevailing in France, and a change in the currency would be gradually introduced. At first no gold would be brought to be coined, but as the suspense of the coinage of silver operated to raise the value of the rupees in existence to the par value defined by the fixed rate of exchange of rupees and gold, gold would be more and more brought to the Mint, and would find its way into circulation. The process would be automatic and not costly, but it would be extremely slow, etc."

these processes of bringing about a gold standard seemed quite hopeless. The impossibility of the plan of conversion was quite out of the question. The fall in the value of silver in 1893 was nearly 35 per cent. Even the prospect of the Smith plan did not appear very bright owing to the enormous addition of rupees to the circulation of the country. If it had been adopted in 1878, all the subsequent additions to the currency would have been in gold, with the result that by 1893 the proportion of gold to silver would have been large enough to have endowed the whole currency system with the desired stability in relation to countries on a purely gold basis. In 1893 the mass of silver currency had grown to enormous proportions, so that it looked certain that it would take decades before the stoppage of silver coinage could make the rupee a stable and secure form of currency.

The plans showing a way out of an *impasse* such as this were legion. One was the issue of heavier rupees.* The second was to make silver limited legal tender and to authorize the Secretary of State to sell in London gold or silver Indian stock to the extent of his gold payments, to be liquidated by the Government of India by the issue of unlimited legal-tender notes called "bons."† The third was that England and India should, as between them, adopt a bimetallic standard on a new basis,‡ or to admit the rupee as full legal tender in the United Kingdom.§ The fourth was to regulate the opening and closing of Mints to coinage on the basis of deviations of actual exchange rates from the rate of exchange fixed at the opening of each year for the Council drafts of the Secretary of State. Under this scheme, so long as the actual rate did not exceed the fixed rate by less than 5 per cent., the free coinage of silver was to be suspended.¶ The fifth was to provide that on the one hand the Secretary of State should fix a minimum rate for his drafts, and that the Government of India on the other should levy a duty on all imports of silver equal to the difference between the daily official quotations of bar silver in London and the price of silver corresponding to the rate fixed for the Council drafts.‡‡ The sixth was to introduce a bimetallic coin, to be called the Imperial

* By Aston and also by R. West, I.C.C, 1893. App. III, pp. 281 and 325.

† By Atkins, *ibid.,* p. 282.

‡ By Chapman, *ibid.,* p. 282.

§ By Woodhouse, ibid., p. 33.

¶ By Graham, ibid., p. 305.

‡‡ By M. Schilizz, ibid., p. 319.

florin or rupee, made of the value of 2s. and containing 4 per cent, weight in gold and the balance in silver.* The seventh was to establish independent gold and silver standards without any fixed ratio of exchange between them.† or with some slight inducement for the use of gold in transactions of larger denominations.‡‡ Although the Government of India was not in agreement with these clever if not crazy plans of currency reforms, it agreed in the aim they had in view, namely, to place India on a gold basis without involving the actual use of gold in place of the existing rupees in circulation. With this aim in view it revived for adoption the more simple and more scientific plan of Colonel Smith. As a preliminary, the Government reverted to the policy of the resolution of the Bengal Chamber of Commerce, to the adoption of which it saw such "fatal objections" in 1876. In the despatch dated June 21, 1892, which contained the proposals, the Government of India asked for nothing more. In the words of their author§ they proposed

> " ......That the Indian Mints should be closed to the unlimited coinage of silver, and *no further steps taken* until the effect of closing the Mints had been ascertained.
>
> "The ratio at which the change from silver to the gold standard should be made was subsequently to be settled and it was said that a ratio based on the average price of silver during a limited period before the Mints had been closed would probably be the safest and most equitable. When this ratio had been settled, the Mints were to be opened to the coinage of gold at that ratio, and gold coins were to be made legal tender to any amount."

These proposals were submitted for examination to a Departmental Committee, commonly known as the Herschell Committee. They were said to be defective in one important particular, and that was the absence of due recognition of the necessity of a gold reserve for the maintenance of the value of the rupee. Many people felt doubtful of the success of the proposals unless

* By Stalkart, *ibid,* p. 322 ; also a very similar one by Merington, *ibid,* p. 316.

† By Perry, *ibid,* p. 323.

‡‡ By Claremonth Daniell, *ibid.,* p. 292.

§ Sir David Barbour, *The Standard of Value,* 1912, pp. 202-3. Italics not in the original.

backed by an adequate gold reserve. But the Herschell Committee, after an extended investigation into the working of the currency systems of different countries, reported*:—

> "It is impossible .... to review foreign systems of currency, without feeling that, however admirable may be the precautions of our own [English] currency system, other nations have adopted different systems which appear to have worked without difficulty, and enabled them to maintain for their respective currencies a gold standard and a substantial parity of exchange with the gold-using countries of the world"

with little or no gold. The Committee, therefore, was completely satisfied with the proposals of the Government of India, and not only sanctioned their adoption,† but added, by way of introducing a modification in them, that

> "The closing of the Mints against the free coinage of silver should be accompanied by an announcement that, though closed to the public, they will be used by the Government for the coinage of rupees in exchange for gold at a ratio to be then fixed, say 1*s.* 4*d.* per rupee, and that at the Government Treasuries gold will be received in satisfaction of public dues at the same ratio."‡

These recommendations were carried into effect on June 26, 1893, which forms as great a landmark in the history of Indian currency as did the year 1835. On that date were promulgated one legislative enactment and three executive notifications, together calculated to accomplish the object in view. The Act (VIII) of 1893 was only a repealing Act. It repealed:—

(i) The Indian Coinage Act, XXIII of 1870.

Sections 19 to 26 (both inclusive), requiring the Mint Masters to coin all silver brought to their Mints for coinage.§

* Report, par. 93.

† Report, par. 155.

‡ Report, par. 156.

§ These sections also contained provisions for the coinage of all gold brought to the Mints for the purpose by private persons. The quantity brought to the Mints was quite trifling, and the gold coins, i.e. the mohurs struck, were not legal tender. As they were to be superseded by sovereigns to be coined at the Mints upon their being subsequently thrown open to the free coinage of gold, it was thought undesirable that any more of these mohurs should be coined Consequently, along with silver, Mints were also closed to gold.

(ii) The Indian Paper Currency, 1882.*

(*a*) Section 11, Clause *(b),* requiring the Paper Currency Department to issue notes against silver coin made under the Portuguese Convention Act, 1881,†

(*b*) Section 11, Clause (a), requiring the Paper Currency Department to issue notes against silver bullion or foreign silver coin.‡

(*c*) Section 13. Only the proviso limiting the gold portion of the Paper Currency Reserve to one-fourth of the Total Reserve.§

These repeals by the Act were supplemented by an executive Notification No. 2663, announcing in conformity with the suggestion of the Herschell Committee that the Government Treasuries would receive sovereigns and half-sovereigns of current weight in payment of public dues at the rate of 15 rupees and 7 rupees 8 annas respectively.

Since gold was not made general legal tender by any of the above measures, it was feared that the Government might be embarrassed by the accumulation in its Treasuries of a stock money which it could not pay out in discharge of its obligations. To enable Government to rid the Treasuries of gold, should it accumulate in them to an inconvenient extent, there followed another Notification, No. 2664, requiring that the Currency Department should issue, on the requisition of the Controller-General, currency notes in exchange for gold coin or gold bullion, at the rate of one Government rupee for 7.53344 grs. trey of fine gold, or sovereigns or half-sovereigns at the rate of 15 rupees and 7 rupees 8 annas respectively.

To give effect to the second modification introduced by the Herschell Committee, there was issued a third Notification, No. 2662, to the effect that

> "The Governor-General in Council hereby announces that, unitil further orders, gold coins and gold bullion will be received by the Mint Masters of the Calcutta and Bombay

* The repeal of these sections of the Act also called for the repeal of other sections depending upon them, such as sections 14 and 15 and alterations in Sections 21 and 28, to bring the whole Act in accord with the policy of a gold standard then inaugurated.

† The Convention had come to an end and the retention of the clause was therefore unnecessary.

‡ The retention of this clause would have been inconsistent with the closure of the Mints.

§ As gold was to be the future standard of India, this limitation was no longer necessary.

Mints respectively, in exchange for Government rupees, at the rate of 7.53344 grs. troy of fine gold for one rupee on the following conditions :—

(1) Such coins or bullion must be fit for coinage.

(2) The quantity tendered at one time must not be less than 50 tolas.

(3) A charge of one-fourth per mille will be made on all gold coin or bullion which is melted or cut so as to render the same fit for receipt into the Mint.

(4) The Mint Master, on receipt of gold coin or bullion into the Mint, shall grant to the proprietor a receipt which shall entitle him to a certificate from the Mint and Assay Masters for the amount of the rupees to be given in exchange for such coin or bullion payable at the General (Reserve) Treasury, Calcutta or Bombay. Such certificates shall be payable at the General Treasury after such lapse of time from the issue thereof as the Comptroller-General may fix, from time to time."

Before the policy adumbrated by these measures was carried to completion there came up a move for the undoing of it. After the failure of the International Monetary Conference of 1892 the United States and France, two countries most heavily burdened with an overvalued stock of silver, opened negotiation with the British Government, asking the latter to agree to certain conditions on the grant of which they were to open their Mints to the free coinage of silver at the ratio of 15½ to 1. These conditions included :*

(1) Opening of the Indian Mints, which had been closed to the free coinage of silver, and an undertaking not to make gold legal tender in India.

(2) Placing one-fifth of the bullion in the Issue Department of the Bank of England in silver.

(3) (a) Raising the legal-tender limit of silver in England to £10.

* Cf. Correspondence respecting the Proposals on Currency made by the Special Envoys from the United States, P.P.C. 8667 of 1897, p. 3.

(*b*) Issuing the 20s. notes based on silver, which shall be legal tender.

(*c*) Retirement, gradual or otherwise, of the 10s. gold pieces, and substitution of paper based on silver.

(4) Agreement to coin annually a certain quantity of silver.

(5) Opening of English Mints to the coinage of rupees and for coinage of British dollars, which shall be full legal tender in Straits Settlements and other silver-standard Colonies, and tender in the United Kingdom to the limit of silver legal tender.

(6) Colonial action, and coinage of silver in Egypt.

(7) Something having the general scope of the Huskisson plan.

In these negotiations the Treasury again reverted to its old pose. It refused to discuss the conditions requiring a change in the British currency, but argued that the opening of the Indian Mints, if brought about, should be regarded as an adequate "contribution which could be made by the British Empire towards any international agreement with the object of securing" a stable monetary par of exchange between gold and silver,* and the representatives of the United States and France seemed to have concurred in that view. The negotiations, however, failed, because of the firm stand taken by the Government of India. The Government had suffered too long to be the scapegoat of the Treasury. Nor did it see any reason why it should be called upon to pull the chestnuts off the fire for the benefit of France and the United States. In a letter commenting upon the proposals, the Government of India observed†:—

> "The changes which are involved in the arrangements proposed to Her Mahesty's Government are the following : France and the United States are to open their Mints to the free coinage of silver, continuing the free coinage of gold and the unlimited legal tender of coins of both metals, the ratio remaining unchanged in France and being altered in the French ratio of 15½ to 1 in the United States. *India is to open*

* Cf. letter dated October 16, 1897, to the Foreign Office, P.P.C. 8667 of 1897, p. 15.

† Despatch dated September 16, 1897, to the Secretary of State, *ibid,* p. 9. Italics not in the original

her Mints to silver, to keep them closed to gold, and to undertake not to make gold legal tender. France and the United States would thus be bimetallic; India would be monometallic (silver) ; whilst most of the other important countries of the world would be monometallic (gold).

* * * * *

"The first result of the suggested measures, if they even temporarily succeed in their object, would be an immense disturbance of Indian trade and industry, by the sudden rise from about 16d. to about 23d. the rupee. Such a rise is enough to kill our export trade, for the time at least ...... such an arrangement as is proposed is an infinitely more serious question for India than for either of the other two countries, for it seems clear that practically the whole risk of disaster from failure would fall on india alone. What would happen in each of the three countries if the agreement broke down and came to an end ? France possesses a large stock of gold, and the United States are at present in much the same situation as France, though the stock of that metal is not so large. It may be admitted that if no precautions were taken these gold reserves might disappear under the operation of the agreement, and in that case, if the experiment ultimately failed, the two countries concerned would suffer great loss. But it is inconceivable that precautions would not be taken, at all events, so soon as the danger of the depletion of the gold reserves manifested itself, and, therefore, it is probable that no particular change would take place in the monetary system of France or the United States, the only effect of the agreement being a coinage of silver which would terminate with the termination of the agreement. Thus the whole cost of the failure, if the experiment should fail, would be borne by India. Here the rupee would rise with great swiftness, it would keep steady for a time, and then, when the collapse came, it would fall headlong. What course could we then adopt to prevent the fluctuation of the exchange value of our standard of value with the fluctuations in the price of silver ? We do not think that any remedy would be open to us, for if the Indian Mints were reopened to silver now, it would ...... be practically impossible for the Government of India to close them again, and even if they were closed it would only be after very large additions had been made to the amont of silver in circulation."

But soon after it had refused to be diverted from the goal it had placed before itself, namely the introduction of a gold standard, it was faced with a crucial problem in its existing monetary arrangements. The rupee stock, the addition to which was stopped since 1893 by the closure of the Mints, was large enough to meet the needs of the people for some considerable time, in the first few years after the closure, the rupee currency was not only abundant but was also redundant. Soon it ceased to be redundant, and indeed by the end of 1898 it became scarce, so much so that the discount rate in the Indian money market rose to 16 per cent., and continued at that pitch during the larger part of the year. Such was the outcry against what was called the policy of "starving" the currency, that the Government was obliged to pass an Act (No. II) of 1898 to permit currency notes issued in India against gold tendered in London to the Secretary of State. The Act was doubly easeful to the then starved condition of the Indian money market. By the measures adopted in 1893 gold was not general legal tender, so it could not be used when the rupee currency fell short of the needs of the time. The new Act, it is true, did not make gold general tender, but permitted it to be used on behalf of the general public* as a backing for the issue of currency notes which were general legal tender. The Act, however, could have required that gold be laid down *in India* before notes could be issued. But as the remittance of gold to India took some three or four weeks, it was feared† that the remedy might" prove too tardy to be effective" unless the interval was done away with by providing that gold with the Secretary of State in London was lawfully tantamount to gold with the Paper Currency Department in India for the purposes of note issue.

In doing this the Act only testified to the urgency of the situation. A sound currency system must be capable of expansion as well as contraction. The Government, by the closure of the Mints in 1893, had contracted the currency to the point of danger. In 1898 it was called upon to undertake measures to provide for its expansion. Now, there were two methods open to bring about this desired result. One was to keep the Mints closed and to permit additions to currency through the use of the gold by making the sovereign general

* By Notification No. 2664 of 1893, notes could be issued against gold only to the Comptroller-General.

† Cf. the speech of the Hon. Sir James Westland introducing the Bill, dated January 14, 1898.

legal tender. This was the plan proposed by the Government of India, in their despatch dated March 8, 1898,* they argued ;—

> "Our present intention is rather to trust to the automatic operations of trade. The amount of coin required for the needs of commerce increases every year: and as we print no increase in the amount of silver coin, we may reasonably expect that the effect of the increasing demand for coin will raise exchange to a point at which gold will flow into the country, and remain in circulation. The position will thus become stronger and stronger as time goes on, but at the beginning at least, gold will not be in circulation in the country *to* more than the *extent* necessary to secure stability of exchange. The mass of the circulation will be a silver circulation, maintained at an appreciated value (just as it is at present), and we can be content to see gold coin remain little more than a margin, retained in circulation by the fact that its remittance out of the country could create a scarcity of coin which would have the effect of raising the exchange value of the silver rupee in such manner as to bring it back, or, at the very best, stop the outward current of remittance. We shall have attained a gold standard under conditions not dissimilar from those prevailing in France, though not a gold circulation in the English sense ; and this last may possibly not be necessary at all."

Besides expanding the currency through the use of gold, there was aisc another mode of effecting the same object. It was urged that this increase of currency might as well take place by Government coining rupees whenever there arose a need for additional currency. Though the Mints were closed, the Government, by Notification No. 2662, had undertaken to give rupees to anyone desiring to have them at the rate of 7.53344 grs. troy of fine gold per rupee.† The Government had only to give effect to that notification to augment the currency to any extent desired. Prominent in the advocacy of this plan of expanding the currency were Mr. Probyn and Mr. A. M. Lindsay. Both claimed that the plan of the Government of India was

* Cf correspondence respecting the Proposals on Currency made by the Government of India, C. 6840 of 1898, p. 3.

† *See supra.*

defective because, although it provided for the expansion of currency by making gold legal tender, it made the rupee entirely inconvertible, and thereby likely to defeat the policy of stabilizing its exchange value. On the other hand, they deemed their plans to be superior to that of the Government of India because they recognized the obligation to provide for the conversion of the rupee currency on certain terms. Although the plans of both of them had contemplated some kind of convertibility, yet they materially differed in the particular mode in which conversion was to be effected. Mr. Probyn proposed*:—

1. That legislative effect should be given to the notification of 1893, under which the public can obtain rupees at the Indian Mints and Reserve Treasuries in exchange for gold, at the rate of 1s. 4d.
2. That the gold so received should be part of the paper currency reserve, and should be held either in the form of full legal-tender gold coins of the United Kingdom, or gold bars representing not less than Rs. 1,000 each.
3. That in order to give the rupee currency automatic power of contraction, Government should be empowered (though not required) so soon as the portion of the paper currency reserve has continuously for one year been less than that held in gold, to give gold in exchange for rupees or rupee notes at the rate of 1s. 4d., if presented for the purpose in quantities of Rs. 10,000.
4. That the existing Rs. 10,000 notes should be called in, and, in future, notes of Rs. 10,000, payable at the option of the holder either in gold or in silver rupees, should be issued in exchange for gold alone, gold in the form of bars being specially reserved to meet any such notes outstanding.

Mr. Lindsay, on the other hand, followed on lines quite different from those adopted by Mr. Probyn. He proposed† that the Government should offer to sell, without limit on the one

* Cf. his *Indian Coinage and Currency,* Effingham Wilson, London, 1897, *passim,* particularly p. 121. Also the summary by Lindsay in the *Economic Journal,* Vol. VII, pp. 574-75.

† The earliest elaboration of his plan is to be found in his article in the *Calcutta Review* for October, 1878, under the title, "A Gold Standard without a Gold Coinage in England and India," and the latest, in his pamphlet called *Ricardo's Exchange Remedy,* Effingham Wilson, 1892. The plan was further developed in the newspaper *Pioneer* of Allahabad (India), dated January 6, 1898, full extracts from which are given in C. 8840 of 1898, p. 13.

hand, rupee drafts on India at the exchange of 16 1/16d. the rupee, and on the other hand, sterling drafts on London at the rate of exchange of $15^{3}/_{4}$d. the rupee. The funds necessary for the transactions were to be kept separate from the ordinary Government balances in "Gold Standard" Offices in London and in India. The London Office was to be kept in funds to meet drafts drawn on it—

(1) by borrowing in gold to the extent of five or ten million sterling;

(2) by the rceipts realized by the sale of drafts on India;

(3) by the receipts realized by the sale of silver bullion in rupee melted down ;* and

(4) when necessary, by further gold borrowing.

The Indian Gold Standard Office was to be kept in funds to meet the drafts drawn on them—

(1) by the receipts realized by the sale of drafts on London ; and

(2) by the coinage when necessary of new rupees from bullion, purchased by the London Gold Standard Office and sent to India.

The principal point of difference between the scheme of currency advocated by the Government of India on the one hand and that put forth by Messrs. Probyn and Lindsay consisted in the fact that the former proposed to establish a gold standard *with* a gold currency, while the latter proposed to establish a gold standered *without* a gold currency.

To adjudicate upon the relative merits of a gold standard with a gold currency and a gold standard without a gold currency, the Secretary of State appointed another departmental Committee, under the chairmanship of Sir Henry Fowler. After taking a mass of important evidence, the Committee observed† :—

> "50. On this scheme [of Mr. Probyn] we remark that, while bullion may be regarded as the international medium of exchange, there is no precedent for its permanent adoption for purposes of internal currency; nor does it accord with

* Mr. Lindsay contemplated that when the demand for gold drafts on London became so great as to indicate the necessity, the volume of the rupee currency should be contracted by melting down the rupees and selling the silver for gold to be deposited in the London "Gold Standard" Office.

† Report of the Committee appointed to inquire into the Indian Currency, P.P. C 9390 of 1899, p. 15.

either European or Indian usage that the standard metal should not pass from hand to hand in the convenient form of current coin. No real support for such a scheme is to be drawn from the purely temporary provisions of "Peel's Act" of 1819, whereby, for a limited period, the Bank of England, as a first step to the resumption of cash payments, was authorized to cash, in stamped gold bars, its notes, when presented in parcels of over £ 200. Little or no demand for gold bullion appears to have been made on the Bank itself in 1321.

* * * * *

"53. It is evident that the arguments which tell against the permanent adoption of Mr. Probyn's bullion scheme, and in favour of a gold currency for India, tell more strongly against Mr. Lindsay's ingenious scheme for what has been termed 'an exchange standard.' We have been impressed by the evidence of Lord Rothschild, Sir John Lubbock, Sir Samuel Montagu and others, that any system without a visible gold currency would be looked upon with distrust. In face of this expression of opinion, it is difficult to avoid the conclusion that the adoption of Lindsay's scheme would check that flow of capital to India upon which her economic future so greatly depends. We are not prepared to recommend Mr. Lindsay's scheme, or the analogous schemes proposed by the late Mr. Raphael and by Major Darwin, for adoption as a permanent arrangement; and existing circumstances do not suggest the necessity for adopting any of these schemes as a provisional measure for fixing the sterling exchange."

The Committee preferred the scheme of the Government of India, and outlined a course of action to be adopted for placing it on a permanent footing, which may be stated in the Committee's own language as follows:—

"54. We are in favour of making the British sovereign a legal tender and a current coin in India. We also consider that, at the same time, the Indian Mints should be thrown open to the unrestricted coinage of gold on terms and conditions such as govern the three Australian branches of the Royal Mint. The result would be that, under identical conditions, the sovereign would be coined and would circulate both at home

> and in India. Looking forward, as we do, to the effective establishment in india of a gold standard and currency, based on the principles of the free inflow and outflow of gold, we recommend these measures for adoption."

These recommendations were accepted by the Secretary of State,* who decided that—

> "the policy of keeping the Indian Mints closed to the unrestricted coinage of silver shall be maintained,"

and called upon the Government of India as soon as it deemed expedient to

> "take the necessary steps for making the British sovereign a legal tender and a current coin, and make preparations for the coinage of gold under the conditions suggested by the Committee."

The first recommendation of the Committee was given effect to by the Government passing an Act commonly called the indian Coinage and Paper Currency Act (XXII) of 1899. That Act made the sovereign and half-sovereign legal tender throughout India at the rate of Rs. 15 and Rs. 7½ respectively, and authorized the issue of currency notes in exchange for them.

Along with placing the Indian currency on a gold basis, the Government was anxious to open a Mint for the free coinage of gold. But as the coin to be issued from the Mint was the English "sovereign" the Government of India was entirely in the hands of the British Treasury. According to the provisions of the English Coinage Act of 1870, it was necessary to issue a Royal Proclamation in order to constitute an Indian Mint a branch of the Royal Mint, a matter entirely dependent on the consent of the Treasury. It was the intention of the Government of India to announce the Proclamation simultaneously with the passing of the Act making the sovereign legal tender. Indeed it held back the legislation pending the arrival of the proclamation.† and proceeded with it reluctantly when it was advised that there was likely to be "some further delay over the Proclamation owing to legal and technical questions." The objections raised by the Treasury, though merely technical, at first seemed to be quite insuperable,‡ and had it not been for the conciliatory attitude of the India Office the negotiations would have broken

* See despatch dated July 25, 1899, No. 140 (Financial), C. 9421 of 1899.

† Cf. the speech of the Hon. Mr. Dawkins on the Indian Coinage and Paper Currency Bill, dated September 8, 1899.

‡ Cf. H. of C. Return 495 of 1913, p. 14.

down. But the Treasury was not willing to give the project a chance. Just when a compromise was arrived at on the technical side of the question, the Treasury turned round and raised the question whether a Mint for gold coinage was at all necessary in India. The Treasury argued :—

> "While expressing their satisfaction that an agreement has now been reached, my Lords think it desirable, before practical steps are taken to carry out the scheme, to invite Lord George Hamilton to review the arguments originally advanced in favour of the coinage of the sovereign in India, and to consider whether the course of events, in the two years which have elapsed since the proposal was made, has not tended to diminish their force, and to render such advantages as are likely to accrue from the establishment of a branch Mint wholly incommensurate with the expense to be incurred... The gold standard is now firmly established, and the public requires no proof of the intention of the Indian Government not to go back on their policy, which is beyond controversy. Sovereigns are readily attracted to India when required under existing conditions... On the other hand the estimates of the Government of India of gold available for coinage in that country are less than was anticipated, nor is any considerable increase expected, at any rate for some time ......
>
> The staff would have to be maintained in idleness for a large part of the year, at a considerable cost to the Indian Exchequer... It is, of course, for Lord George Hamilton to decide whether, in spite of these objections, the scheme is to be proceeded with."

The India Office replied :—

> "The establishment of a Mint for the coinage of gold in India is the clearest outward sign that can be given of the consummation of the new currency system; and to abandon the proposal now must attract attention and provoke criticism and unrest .... His Lordship is not inclined to abandon the scheme at the stage which it has now reached."

The Treasury sent a trenchant rejoinder, in which it remarked:—

> "Indian currency needs are provided from other sources, and there is no real demand for the local coinage of sovereigns ...... My Lords cannot believe that the position of the Gold Standard in India will be strengthened, or public confidence in the intention of the Government confirmed, by providing machines for obtaining gold coin ...... The large measure of confidence already established is sufficiently indicated by the course of exchange since the Committee's Report and still more by the readiness with which gold has been shipped to India ......"

That the Treasury acted "in a spirit of scarcely veiled hostility to the whole proposal" is unmistakable. But it cannot be denied that the Treasury used arguments that were perfectly sound. It was inconsequential to the working of the gold standard whence the coined sovereigns came. So long as a Mint was open to the free coinage of sovereigns the Indian gold standard would have been complete irrespective of the location of the Mint. Indeed, to have obtained coined sovereigns from London would have not only sufficed, but would have been economical. The anxiety displayed by the government was not, however, on account of the want of a gold Mint. Indeed, so slight was its faith in the necessity of it that in view of the opposition of the Treasury it gracefully consented to drop the proposal. What troubled it most was the peculiar position of the rupee in the new system of currency. Throughout the despatch of the Government of India there ran a strain of regret that it could not see its way to demonetize the rupee and to assimilate the Indian currency to that prevailing in England. A general perusal of the despatch leaves the impression that though it recommended the assimilation of the Indian currency to that of France and the United States, it did so not because it thought that their systems furnished the best model, but because it believed that a better one was not within reach. Having regard to the accepted view of the French and the United States currency systems, it was natural that the Government of India did not feel very jubilant about its own. According to that view of the currency systems of these two countries, the position of the five-franc piece and the silver dollar has always been presented as being very anomalous. Even so great an authority as Prof. Pierson was unable to assign them a place intelligible in the orthodox scheme of classifying different forms of money.* In a well-ordered system of gold standard of the orthodox type, gold is the only metal freely coined and the only one metal having full legal-tender power; silver, though coined, is coined only on Government account in limited amounts, and being of less intrinsic value than its nominal value, is a limited legal tender. The former type of coins are called standard coins and the latter subsidiary coins, and the two together make up the ideal of a monometallic gold standrd such as has been established in England since 1816. In a scheme of things like this, writers have found it difficult to fit in the dollar or the five-franc piece. Their peculiarity consists in the fact that although their intrinsic value is less than their nominal value they have been inconvertible and are also unlimited legal tender. It is owing to this anomaly that the title of gold standard has been refused to the American and French currency systems. Few can have confidence in what is called the limping standards in which it is said that somehow "the silver coin, though intrinsically of less value than the gold, hobbles along, maintained at equality by being coupled with its stronger associate."‡

But was the French system of currency so very different from the English as to create doubt as to its stability ? Whatever may have been the differences between the two systems a closer analysis shows that they are fundamentally identical. If we read together the French bimetallic law of 1803 and the Mint Suspension Decree of 1878 on the one hand, and on the other the provisions of the English Gold Standard Act of 1816,

* Cf. Principles of Economics, Vol. I, p. 569.

† It was owing to this want of faith that Germany took away, by the law of October 1, 1907, the full legal-tender power from her silver thalers. In the United States the silver dollar is not legal tender if it is specifically excluded by the terms of a contract. Cf. A. C. Whitaker, *Foreign Exchange,* Appleton, New York, 1920, pp. 8. and 477.

‡ C. F. W. Taussig, *Principles,* 2nd ed., 1913, p. 280.

together with the Bank Charter Act of 1844, and compare, do we find any substantial difference between the French and English systems of currency? Prior to 1878 there was an unlimited issue in France of both gold and silver coins of unlimited legal tender. Prior to 1844 there was an unlimited issue in England of both gold sovereigns and Bank of England notes, both of unlimited legal tender, in 1844 England put a limit on the issue of bank notes, but did not deprive the issues of their legal-tender power.* In 1878 France did precisely the same thing as England did with her notes in 1844. By the decree of mint suspension, France virtually, though indirectly, put a limit on the silver five-franc coins without depriving them of their legal-tender power. If we regard the French five-franc coins as notes printed on silver, it is difficult to see what constitutes the difference between the two systems which leads economists to call one a gold standard and the other a limping standard. If the silver franc limps or hobbles along, so does the bank note, and the former can hobble better than the latter because of the two it has a comparatively greater intrinsic value. If, however, it is argued that the bank note is convertible into gold, while the five-franc piece is not, the reply is that the comparison must be made with the fiduciary notes of the bank of England. Those notes are practically inconvertible. For, at any given time, with the gold the Bank of England has in its Issue Department the fiduciary portion of the notes remains uncovered, and may, therefore, be regarded as inconvertible as the delimited issue of the five francs. But even if it is insisted that the fiduciary notes cannot be regarded as inconvertible as the five franc pieces, it must be pointed out that the similarity of the two is not to be determined by considerations of convertibility or inconvertibility. The attribute of convertibility with which the fiduciary notes of the Bank of England are endowed is a superfluous attribute which in no way improves their position as compared with the five-franc pieces. What makes them identical is the fact that they are both subjected to a fixed limit of issue. Thus viewed, the French limping standard and the English gold standard are

* The Bank of England notes were made legal tender by Lord Althorpe's Act of 1833.

nothing but two different illustrations of the "currency principle" in so far as a fixed limit of issue on a fiduciary currency is a cardinal feature of that principle.

Not only is the French monetary system identical with the English in its organization, but the design in both cases was identical. In the controversy which raged over the Bank Charter Act of 1844, the motives of Lord Overstone were not quite clearly grasped by his opponents of the banking school of thought. Lord Overstone was not very much interested in providing a method for preventing the depreciation of the note issue, as his opponents thought him to be. His supreme concern was to prevent gold disappearing from circulation. Starting from a chain of reasoning the solidity of which can hardly be said to be open to question, he came to the conclusion that gold would be driven out of circulation by an increase in the issue of notes. To keep gold in circulation the only remedy was to put a limit on the issue of notes, and this was the purpose of the Bank Charter Act of 1844. Now, precisely the same was the object of France in suspending the coinage of silver. As has already been pointed out, owing to the fall in the value of silver after 1873, gold was being rapidly driven out of circulation by the substitution of this depreciated metal. To prevent this result from assuming a vast proportion, the French adopted the same remedy as that of Lord Overstone, and through their suspension of silver coinage protected their gold from going out of circulation, which would have certainly been the case if no limit had been put on silver issues.

It would not, therefore, be amiss to argue that the plan contemplated by the Government of India, and approved of by the Fowler Committee in being similar to the French system, was based on the same principles as governed the English currency system, which, according to Jevons, were a "monument of sound financial legislation."

CHAPTER V

FROM A GOLD STANDARD TO A GOLD EXCHANGE STANDARD

For once it seemed that the problem of a depreciating rupee was satisfactorily solved. The anxieties and difficulties that extended over a long period of a quarter of a century could not but have been fully compensated by the adoption of a remedy like the one described in the last chapter. But by an unkind turn of events, the system originally contemplated failed to come into being. In its place there grew up a system of currency in india which was in every way the very reverse of it. Some thirteen years after legislative sanction had been given to the recommendations of the Fowler Committee, the Chamberlain Commission on Indian Finance and Currency reported that

> "in spite of the fact the Government adopted and intended to carry out the recommendations of the Committee of 1898, the Indian currency sysem to-day differs considerably from that contemplated by the Committee, whilst the mechanism for maintaining the exchange has some important features in common with the suggestions made to the Committee by Mr. A. M. Lindsay."*

It will be recalled† that in Mr. Lindsay's scheme Indian currency was to be entirely a rupee currency; the Government was to give rupees in every case in return for gold, and gold for rupees only in case of foreign remittances. The scheme was to be worked through the instrumentality of two offices, one located in London and the other located in India, the former to sell drafts on the latter when rupees were wanted and the latter to sell drafts on the former when gold was wanted. Surprisingly similar is the system prevailing in India to-day-. Corresponding to Mr. Lindsay's proposals, which, be it noted, were rejected in 1898, the Government of India has built up two reserves, one of gold and the other of rupees, out of the cash balances, the paper currency, and the gold-standard reserve. Each of these is, by the nature of the currency system, composite. The cash

* Report, P. P. Cd. 7068 of 1913, p. 13.

† *See* Chap. IV, *supra.*

balances, which are fed from revenue receipts, gather in their net rupees as well as sovereigns, both being legal tender. Notes being issuable against both, the paper-currency reserve always contains sovereigns and rupees. Up to August, 1915, the gold-standard reserve was also held partly in gold and partly in rupees.* By a system of sorting, technically called "transfers," the Government secures the command over rupees and sovereigns necessary for discharging the obligations it has undertaken.† The location of these funds is also very much as designed by Mr. Lindsay. The cash balances, being the till-money of the Government, are necessarily distributed between the Government of India in India and the Secretary of State in London, the portion held by the latter being entirely in gold and that held by the former being in silver. The gold-standard reserve, like the cash balances, is not a statutory reserve. Consequently its location is perfectly within the competence of the Executive. That being so, it has been so arranged that the gold portion of the fund shall be held by the Secretary of State in London, and the rupee portion, so long as it was maintained, by the Government of India in India. The only reserve which did not easily lend itself to currency manipulation was the paper-currency reserve, for the reason that its disposition and location were governed by law. In that behalf, legal power has been taken to alter the location of the gold part of that reserve by making permanent the provision of the temporary Act II of 1898, which authorized the issue of notes in India against gold tendered to the Secretary of State in London. Thus the Secretary of State and the Government of india, under the new system of currency, hold two reserves, one of gold, mainly in the possession of the former and located in London, and the other of rupees, entirely in the possession of the latter and held in India. But the similarity of the existing system to that of Mr. Lindsay is not confined to the maintenance of these funds and their location. It extends even to the modes of operating these two funds. For, as suggested by Mr. Lindsay, when rupees are wanted in India the Secretary of State sells what are called

* The rupee branch has been discontinued since that date, on the recommendation of the Chamberlain Commission.

† Besides, if the Government falls short of rupees, it has the legal power to convert the gold in the paper-currency reserve into *rupees* to replenish the stock.

"Council Bills," encashable into rupees at the Government Treasuries in India, thereby providing the rupee currency in India. When gold is wanted the Government of India sells what are called "Reverse Councils "on the home Treasury in London, which are encashed by the Secretary of State, thereby providing gold for foreign remittances. The result of the sale of "Council Bills" and of the "Reverse Councils" on the two funds has been to transform the Indian currency from being a gold standard with a gold currency, as desired by the Fowler Committee, into what is called a gold standard without a gold currency, as wished for by Mr. Lindsay.

This system which has grown up in place of the system originally contemplated by the Government of india is called the gold-exchange standard. Whatever that designation may mean it was not the plan originally contemplated by the Government of India in 1898. How the departure came about we shall deal with in another place. Here it is enough to state—one may also say necessary, for many writers seem to have fallen into an error on this point—*that the Government did not start to establish a gold-exchange standard*. Rather it was contemplating the establishing of a true gold standard, which, however inadequately understood by the men who framed it, was in essential aggreement with the principles governing the English Bank Charter Act of 1844.

What are we to say about the new system ? The Chamberlain Commission, while reporting that there was a departure from the ideal of a gold standard with a gold currency, observed* :—

> "But to state there has been this departure is by no means to condemn the action taken, or the system actually in force ......"

Now why not ? Is not the system the same as that proposed by the Government in India in 1878 and condemned by the Committee of 1879 ? It is true the arguments urged against that plan by the Committee of 1879 were not of much weight.† Nonetheless the plan was essentially unsound. The material point in the introduction of a gold standard must be said to be one of limitation on the volume of rupees, and it is from this point of view that we must judge the plan. But there was nothing in the plan of 1878 that could be said to have been calculated to bring that about. Far from putting any limitation on the volume

* Report, Par, 46

† See *supra,* Chap. IV.

of rupees, the plan had deliberately left the Mints open to the free coinage of silver. A matter of some interest in the plan was the projection of a system of seignorage so arranged so to make the bullion value of the rupee equal to the gold value given to it. But as a means of limiting the coinage of rupees it was futile. The mere levy of a seignorage cannot be regarded as sufficient in all circumstances to effect a limitation of coinage. Everything would have depended upon how closely the seignorage corresponded with the difference between the mint and market price of silver in terms of gold. If the seignorage fell short of the difference it would have given a direct impetus to increased coinage of rupees until their redundancy had driven them to a discount. In this respect the plan was a reproduction in a worse form of the English Gold Standard Act of 1816. Like the Government of India's plan of 1878, that Act, while purporting to introduce a gold standard, had authorized the opening of the Mint, which was closed, to the free coinage of silver with a seignorage charge. It is not generally recognized how stupid were the provisions of that Act,* the ideal of all orthodox gold monometallists, in so far as they contemplated the free coinage of silver. Fortunately for England the Royal Proclamation, compelling the Mint Master to coin all silver brought to the mint, was never issued. Otherwise the working of the gold standard would have been considerably jeopardized.† The Act of 1816 had at least taken one precaution, and that was a limit on the legal-tender power of silver. In the scheme of the Government of India, not only free coinage of silver was permitted, but silver was conceded the right of full legal tender. In so far, therefore, as the plan did not provide for controlling the volume of rupees it was subversive of the gold standard it had in view.

The only difference between this plan of 1878 and the system now in operation in India is that under the former the Mints were open to the public, while under the latter they are open to the Government alone. In other words, in the one case rupees were coined on behalf of the public, and in the other they are being coined on behalf of the Government. It is not to be supposed that the plan of closing the Mints to the public was not thought of by the Government in 1878. On the other hand, the

* Cf., however, R. G. Hawtrey, *Currency and Credit,* 1919, pp. 302-3.

† Some witnesses before the Lords Committee on Cash payments, appointed in 1819, raised doubts whether, having regard to the silver clause of the Act of 1816, resumption of cash payments was worth while as a means of establishing a gold standard in England. Cf. particularly the evidence of Mr. Fletcher and also Mr. Mushet before the Committee.

Government of India had then considered the feasibility of taking over into its hands the coinage of rupees, and had rejected it on some very excellent grounds. In their despatch outlining the scheme the Government of the day observed :—

> "48. The first point to be guarded in attempting to carry out the proposed change, is to provide for complete freedom for any expansion of the currency which the trade requirements of the country demand. This, we think could not be properly secured if the Mints were wholly closed for the coining of silver for the public. If this measure were adopted, the responsibility for supplying the silver demand would be thrown on the Government, and in the present position of the market for gold and silver bullion in India it would not be possible to accept such a duty.
>
> "49. What might at first sight appear the simplest, and therefore the best way of allowing for the expansion of the Indian silver currency with a gold standard, would be for the Government to undertake to give silver coin in exchange for gold coin to all comers, at the rates fixed by the new system, and to open the Mints for the coinage of gold, while they were closed for silver. But in the absence of any supply of silver in india from which to obtain the necessary material for coinage, such an obligation could not be accepted, without involving the Government in complicated transactions in the purchase and storing of bullion which it would be very inexpedient to enter on."

With these reasons, interesting in so far as they were prophetic of the scandals connected with the recent silver purchases by the India Office,* we are not directly concerned. What is of importance is whether this difference in the mode of issue makes any vital difference to the question of an effective limit on the volume of rupees. Now, there is a great deal of confused thinking as to the precise virtue of the closing of the Mints to the private coinage of silver. It was generally believed, the closing of the Mints having given a monopoly to the Government in the matter of issuing rupees, that this monopoly would somehow sustain the value of the rupees in terms of gold by preventing their over-issue. The closing of the Mints, it must

* See P. P. 400 of 1912.

be admitted, has given the Government the position of a monopolist. But how a monopoly prevents an over-issue is not easy to grasp. The closing of the Mints to the free coinage of silver is the same as depriving banks of the liberty of issuing notes and giving it exclusively to a central bank. But nobody has ever argued that because a central bank has a monopoly of issue it cannot therefore over-issue. Similarly, because the Government of India is a monopolist it would be absurd to argue that it cannot therefore over-issue. Indeed, a monopolist can issue as much as private people put together, if not more. Again, from the standpoint of influence of profits on coinage the present plan is much inferior to that of 1878. It is true in both cases profits depend upon the volume of coinage. But in the former the amount of profit was no incentive to coinage, either to the Government, because it had no power to coin, or to the people who determined the volume of coinage, because the regulation of seignorage practically controlled it by making it unprofitable to bring additional bullion to the Mint. In the present case, the coinage being entirely in the hands of the Government, a hankering after profits, generated by the silly notion of the necessity of a "backing" to the currency, might create an impulse to undertake additional coinage, especially if the price of silver fell very low and produced a wide margin between the Mint and the market price of the rupee.*

If it is argued, as it well may be, that the will of the Government of India as a monopolist, i.e. its desire to see that its currency is not depreciated, may bring about a limitation on the issue of rupees which could not have been possible had the Mints remained open to the public in general, the reply is that this will to limit could be effective only if the Government had the power to refuse to issue. Central banks limit their currencies so far as will is concerned, because they are not obligated to issue to anyone and everyone. But the position of the Government of India is lamentably weak in this respect. It is bound to issue currency when asked for. It is true that every issue does not involve a net addition to the existing volume of

* From this point of view the proposition of Prof. Keynes, that the gold value of the rupee may be fixed irrespective of the cost price of silver, must, having regard to the existing system of currency, be looked upon as a somewhat unsafe position. Cf. his evidence before the Indian Currency Committee of 1919, Q. 2,688.

currency; for a portion of the new issue is a re-issue of what is returned from circulation. Nonetheless, it cannot be said that the Government by reason of its monopoly has put an effective limit on the volume of rupee currency. On the other hand, having no escape from the liability to issue currency, the exercise of this cherished privilege has recoiled on the Government, so much so that this monopoly of issue, instead of strengthening the position of the Government, has weakened it considerably.* The view of the Chamberlain Commission†

> "that while the Government are very large dealers in the exchange market, they are not monopolists (!) and it seems doubtful if they could successfully stand out for any such [fixed minimum rate] at all times of the year,"

is therefore interesting as a confession that the closing of the Mints has not had the virtue of so limiting the coinage of rupees as to enable the Government to dictate at all times the price of the rupee, which none but it alone can manufacture.

Thus the present standard is different from the standard proposed in 1878 only in name. If this one is characterized by the adoption of the rate of exchange as an index for regulating the volume of currency, the same must be said of the former. But as Mr. Hawtrey remarks.‡ whatever means are adopted for the manipulation of the currency,

> "the value of the rupee will be determined by the quantity in circulation."

In other words, what must be said to be essential for the safety of a gold standard is a provision against over-issue of rupees. But, as we saw, neither the plan of 1878 nor the present one can be said to be free from that danger. Consequently we must conclude that, being essentially alike, the arguments that are valid against the former are also valid against the latter.

But the Chamberlain Commission will not allow that the exchange standard is a resuscitation of a condemned plan. On the other hand, it has sought to inspire confidence in that standard by holding out§

> "that the present Indian system has close affinities with other currency systems in some of the great European countries and elsewhere ......"

* The danger involved in this indefinite liability to issue rupee currency was recognized by the Smith Currency Committee of 1919, which recommended that this obligation should be withdrawn. *See* Report, par. 68. Of course its motive was different.

† Report, par. 132.

‡*Currency and Credit,* 1919, p. 341.

§ Report, par. 46.

To get an idea as to what these affinities are, or rather were, we must look into Chapter II of Mr. Keynes's interesting treatise on *Indian Currency and Finance.* In that treatise of his, Mr. Keynes has attempted to show that there is a fundamental likeness between the operations of the Indian currency system and the operations as they used to be of the central banks of some of the important countries of Europe. He found that it used to be the practice of these banks to hold foreign bills of exchange for the purpose of making remittances to foreign countries. Between the selling of such foreign bills and selling of reverse councils by the Government of India he observed a close fundamental likeness, inasmuch as both involved

> "the use of a local currency mainly not of gold, some degree of unwillingness to supply gold locally in exchange for the local currency, but a high degree of willingness to sell foreign exchange for payment in local currency at a certain maximum rate."*

But, as Prof. Kemmerer points out.† it is difficult to see what likeness there is between the Government of India selling reverse councils and the European banks holding foreign bills. Far from being alike, the two practices must be regarded as the opposite of each other. In selling reverse councils

> "the Government sells drafts against its foreign gold credit (i.e. its gold reserve), when money at home is relatively redundant, as evidenced by exchange having reached the gold export point. Thereby it relieves the redundancy through the withdrawing from circulation and locking up the local money received in payment for the drafts. Under the practice of holding foreign bills to protect the money market, the central bank sells its foreign bills, when money at home is relatively scarce, as means of securing gold for importation or preventing its exportation. In the former case, the sale of drafts takes the place of an exportation of gold, and the resulting withdrawal of local money from circulation is in essentials an exportation ; in the latter case the sale of the drafts abroad is part of a process for securing gold for importation, or for preventing its exportation."

The Indian currency system therefore bears no analogy to the European currency systems, as Mr. Keynes would have us believe. But if a parallel is needed, then the true parallel to the

* Kenynes, *Indian Currency and Finance,* p. 29.

† Cf. his review of Keynes in the Quarterly Journal of Economics, February, 1914, p.

Indian system of currency is that system which prevailed in England during the Bank Suspension period (1797-1821). The fundamental likeness between the two systems becomes quite unmistakable if we keep aside for the moment the remittance operations of the Government of India and the Secretary of State, which becloud the true features of the Indian currency system. If we tear this veil and take a close view, the following appear to be the prominent features of the Indian system :—

(1) The gold sovereign is full legal tender.

(2) The silver rupee is also full legal tender.

(3) The Government undertakes to give rupees for sovereigns, but does not undertake to give sovereigns for rupees, i.e. the rupee is an inconvertible currency unlimited in issue.

Turning to the English system of currency during the period of the Bank Suspension, we find :—

(1) The gold sovereign was full legal tender.

(2) The paper notes of the Bank of England circulated as money of general acceptability by common custom if not by law.*

(3) The Bank of England undertook to give notes for gold or mercantile bills or any other kind of good equivalent, but did not give gold for notes, i.e. the notes formed an inconvertible currency unlimited in issue.

Only in one respect can the analogy be said to be imperfect. The Indian Government has undertaken—not, be it noted, as a statutory obligation, but merely as a matter subject to the will of the executive, to convert the rupee into gold at a fixed rate for foreign remittances if the exchange falls below par. This, it must be allowed, the bank of England did not do during the suspension period. Everything, therefore, turns upon the question whether this much convertibility is a sufficient distinction to mark off the Indian currency from the English currency of the suspension period into a separate category and invalidate the analogy herein said to exist between the two systems. To be able to decide one way or the other we must firmly grasp what is the true import of convertibility. Prejudice against an inconvertible currency is so strong that people are easily satisfied with a system which provides some kind of convertibility, however small. But to assume this attitude is to trifle with

* Cf. Andreades, *History of the Bank of England,* p. 198.

a very crucial question. We must keep clear in our mind what it is that essentially marks off a convertible from an incovertible currency. The distinction commonly drawn, that the one is an automatic and the other is a managed currency, must be discarded as a gross error. For, if by a managed currency we mean a currency the issue of which depends upon the discretion of the issuer, then a convertible currency is as much a managed currency as an inconvertible currency is. The only point of contrast lies in the fact that in the management of a convertible currency the discretion as to issue is regulated, while in an inconvertible currency it is unregulated. But even if regulated the issue remains discretionary and to that extent a convertible currency is not so safe as to mark it off from an inconvertible currency. The enlargement of its issue being discretionary and the effect of such issues being to drive specie out of circulation, a convertible currency may easily become inconvertible. The difference between a convertible and an inconvertible currency is therefore ultimately a distinction between a prudent and an imprudent management of the right to issue currency. In other words, convertibility is a brake on the power of issue. Bearing this in mind, and also the fact that a convertible currency by reason of mismanagement has the tendency to become inconvertible, it is possible for us to imagine how severe must be the obligations as to convertibility in order to prevent prudent management of currency from degenerating into an imprudent management resulting in over-issue. If, therefore, it is true that in countries having a convertible currency the affairs were so prudently managed that when specie left the country the paper money not only did not increase to take its place, but actually diminished, and that usually by a greater absolute amount than the gold currency, it was because the obligations as to convertibility were those of "effective absolute immediate convertibility."* We can now appreciate why Prof. Sumner said† that

> "convertibility in the currency is like conscientiousness in a man : it has many grades and is valuable in proportion as it is strict and pure."

* "No single word can convey the full meaning," says Prof. Nicholson, *War Finance,* 2nd ed., 1918, p. 36.

† *A History of American Currency,* New York, 1874, p. 116.

That being so, it would be foolish to assume that we are immune from the consequences of an inconvertible currency until we know what is the grade of the convertibility that is provided. Now, what is the character of the convertibility of the rupee in India ? It is a deferred, delegalized, delocalized, and therefore a devitalized kind of convertibility. Indeed, really speaking it is not a convertibility, but rather it is a moratorium which is a negation of convertibility, for what does the provision for convertibility for foreign remittances mean in practice ? It simply means that *until* a fall of exchange takes place there is a moratorium or inconvertibility in respect of the rupee. Not only is there a moratorium as long as exchange does not fall, but there is no guarantee that the moratorium will be lifted when a fall does occur. It may not be lifted, for it is a matter of conscience and not of law.* Is such a grade of convertibility, if one has a predilection for that term, very far removed from the inconvertibility of the bank notes during the suspension period ? Let those who will say so. For a person not endowed with high and subtle imagination the distinction between such a convertibility and absolute inconvertibility is too thin to persuade him that the two systems are radically different; indeed, when we come to analyse the problem of prices in India and outside India we shall find another piece of evidence to show that they are not different, and that the analogy between the two is perfect enough for all practical purposes.

* The Finance Member of the Viceroy's Council, in his Financial Statement for 1908-09 (p. 23, italics not in the original), observed :— "Had we complied with the demand for issues [of gold] without limit, the whole available supply might have been drawn off in a few weeks ...... *For these reasons we decided to stand by our legal rights. ...We are not bound to give sovereigns in exchange for rupees except at our own convenience.* The currency offices were accordingly instructed *not* to issue gold in larger quantities than £ 10,000 to any individual on any one day." These words were used to explain the attitude of the Government regarding its sense of obligation as to convertibility of the rupee in the exchange crisis of 1907 ! The degree of convertibility being a matter of administrative discretion it is difficult to define the extent to which it is given effect to in practice. Official evidence is inclined to impress upon the public that practically the rupee is convertible. If that is so, why not make it *legally* convertible. For, if convertibility is complete in practice a legal convertibility cannot impose upon the Government greater obligations than what the official evidence suggests the Government to be actually assuming. It is said that Government does not do so because it is afraid that exchange speculators will take advantage of it. But why should they not ? Are they not holders of rupees ? It does not, however, appear to have been adequately realized that this defence implies that the currency is issued so much beyond the point of the "saturation" that its value is always, on the margin of being affected by an element of speculation.

It may, however, he said that an inconvertible currency may be so well managed as not to give rise to a premium on gold, so that there may be little to choose between it and a perfectly convertible currency. But whether an inconvertible currency will be so well managed is a question of practical working. Again, whether the absence of premium on gold suffices to place an inconvertible currency on par with a convertible currency, so far as the price problem is concerned, is also a matter depending on circumstances. All these questions will be considered in their proper places.* What we are considering at this stage are the inherent potentialities of an inconvertible currency. Suffice it to say here that the name Gold Exchange Standard cannot *conceal* the true nature of the Indian Monetary Standard. Its essence consists in the fact that although gold is unlimited legal tender there is alongside an unlimited issue of another form of fiduciary currency well-nigh inconvertible, and also possessing the quality of unlimited legal tender.

It needs no acute power of penetration to see that, so interpreted, the existing currency system in India is the opposite of the system outlined by the Government in 1898 and passed by the Fowler Committee. The two are opposites of each other for the same reason for which the Bank Charter Act was the opposite of the Bank Suspension Act in England. Under both the Acts the currency in England was a mixed currency, partly gold and partly paper. The difference was that by the Bank Suspension Act the issue of gold became limited and that of paper unlimited, while under the Bank Charter Act the process was reversed, so that the issue of paper became limited and that of gold unlimited. In the same manner, under the original scheme of the Government of India, the issue of rupees was to be limited and that of gold unlimited. Under the existing system the issue of gold has become limited while that of rupee has become unlimited.

Was this an improvement on the plan originally contemplated by the Government of India ? The only objection to that plan was that it made the rupee an inconvertible rupee.† But is

* For reasons giving rise to a premium on gold in terms of the rupee, *see* Chap. VI. For reasons explaining how there can be a general depreciation of the rupee without there being a specific depreciation of it in terms of gold, *see* end of Chap. VI and beginning of Chap. VII.

† Both Lindsay and Probyn had attacked the plan of the Government of India on this score, and had claimed that their plans were superior because they had at least provided some sort of convertibility.

convertibility such a necessary condition, and, if so, when ? The idea that convertibility is necessary to maintain the value of a currency is, on the face of it, a preposterous idea. No one wants the conversion of bananas into apples to maintain the value of bananas. Bananas maintain their value by reason of the fact that there is a demand for them and their supply is limited. There is no reason to suppose that currency forms an exception to this rule. Only we are more concerned to maintain the value of currency at a stable level than we are of bananas because currency forms a common measure of value. What is wanted to maintain the value of currency, or of any other thing for the matter of that, is an effective limit on its supply. Convertibility is useful, not because it directly maintains the value of a currency, which is nonsense, but because it has the effect of putting a limit on the supply of currency. But convertibility is not the only way of achieving that object. A plan which lays down an absolute limit on issue has the same effect—indeed, a far more powerful effect—on the supply of currency. Now, had the Mints remained entirely closed to the coinage of rupees there would have been placed an absolute limit on the issue of currency, and all the purposes of convertibility would have been served by such an inconvertible rupee. Nay, more ; such an inconvertible rupee currency would have been infinitely superior* to the kind of pseudo-convertible rupee which we have in India to-day.* With an absolute limit there could have been no danger of a fall in the value of the rupee. If anything there would have been a danger of an indefinite appreciation of the rupee, but that was efectually guarded against by gold having been made general legal tender. A second effect of an absolute limit on the currency would have been to free it from management by reason of the fact that all question regarding the volume of issues had been settled once for all.

In these respects, therefore, the gold-exchange standard is an impairment of the original plan of an inconvertible rupee with fixed limit of issue supplemented by gold. Again, from the standpoint of controlling the price-level, the exchange standard cannot be said to have been an improvement on the original plan. Of course, it is possible to say that such a perversion of the original system is no matter for regret. Whether gold is a standard of value, or whether fiduciary money is a standard of

* In his comparison of the Limping Standard with the Exchange Standard, Prof. Fisher seems entirely to overlook these considerations. Cf. his Purchasing Power, etc., 1911, pp. 131-32.

value, is a matter of infifference, for neither can be said to have furnished a stable standard of value. A gold standard has proved to be as unstable as a paper standard, because both are susceptible of contraction as well as expansion. All this, no doubt, is true. Nevertheless it is to be noted that in any monetary system there is no danger of indefinite contraction.* What is to be guarded against is the possibility of indefinite expansion. The possibility of indefinite expansion, however, varies with the nature of money. When the standard of value is standard metallic money the expansion cannot be very great, for the cost of production acts as a sufficient limiting influence. When a standard of value is a convertible paper money the provisions as to reserve act as a check on its expansion. But when a standard of value consists of a money the value of which is greater than its cost and is inconvertible, the currency must be said to be fraught with the fatal facility of indefinite expansion, which is another name for depreciation or rise of prices. It cannot, therefore, be said that the Bank Charter Act made no improvement on the Bank Restriction Act. Indeed, it was a great improvement, for it substituted a currency less liable to expansion in place of a currency far more liable to expansion. Now the rupee is a debased coin.† inconvertible, and is unlimited legal tender. As such, it belongs to that order of money which has inherent in it the potentiality of idenfinite expansion, i.e. depreciation and rise of prices. As a safeguard against this the better plan was no doubt the one originally designed, namely of putting a limit on the issue of rupees, so as to make the Indian currency system analogous to the English system governed by the Bank Charter Act of 1844.

* Cf. Hawtrey, R. G., op. cit., Chap. I.

† It is difficult to understand why some writers on Indian currency do not like to admit this fact. Cf. the discussion on Mr. Madan's paper at the annual meeting of the Indian Economic Association (*Indian Journal of Economics,* Vol. III, Part 4, Serial No. 12, p. 560). It is true the debasement of the rupee is not so obvious as it would have been had it taken the form of continuing the weight and making it baser, or of preserving the same fineness and making it lighter. But, as Harris points out in his *Essay upon Money and Coins* (Part II, Chap. I, par. 8), the "altering the denominations of the coins, without making any alteration at the Mint or in the coins themselves," "as supposing ninepence, or as much silver as there is in ninepence, should be called a shilling," is a mode of debasement not different from that of the rupee, and is virtually the same as the other two modes of debasement. So viewed it is difficult to avoid the conclusion that the rupee is a debased coin.

If there is any force in the line of reasoning adopted above, then it is not easy to agree with the opinion entertained by the Chamberlain Commission of the Exchange Standard. Indeed, it raises a query whether for all that the Commission said there is not somewhere some weakness in the system likely to bring about its breakdown. It therefore becomes incumbent to examine the foundations of that standard from a fresh point of view.

CHAPTER VI
STABILITY OF THE EXCHANGE STANDARD

It will be recalled that at the time the Indian Mints were closed to the free coinage of silver there were two parties in the country, one in favour of and the other opposed to the closure. Being placed in an embarrassing position by the fall of the rupee, the Government of the day was anxious to close the Mints and raise its value with a view to obtaining relief from the burden of its gold payments. On the other hand it was urged, on behalf of the producing interest of the country, that a rise in the exchange value of the rupee would cause a disaster to Indian trade and industry. One of the reasons, it was argued, why Indian industry had advanced by such leaps and bounds as it did during the period of 1873-1893 was to be found in the bounty given to the Indian export trade by the falling exchange. If the fall of the rupee was arrested by the Mint closure, it was feared that such an event was bound to cut Indian trade both ways. It would give the silver-using countries a bounty as over against India, and would deprive India of the bounty which it obtained from the falling exchange as over against gold-using countries.

Theory had already scoffed at these fears. It is therefore interesting to see that later history has also confirmed the verdict of theory. Indian trade with a gold-standard country like England or a silver-standard country like China did not suffer a setback, notwithstanding an arrest in the fall of the rupee. The following figures furnish sufficient evidence to support the contrary:—

TABLE XXV

Trade of India with United Kingdom (before and after the Mint Closure)

Annual Average.	Exports to U.K			Imports from U.K.		
	Merchandise.	Bullion and Specie.	Total.	Merchandise.	Bullion and Specie.	Total.
	£	£	£	£	£	£
I 1889-93	31,569,891	1,180,646	32,750,537	31,837,482	7,694,149	39,531,631
II 1894-98	26,329,764	2,215,049	24,544,813	28,963,180	6,750,736	35,713,916
III 1899-1903	28,709,819	2,089,656	30,799,475	33,498,480	7,301,172	40,799,652
IV 1903-8	36,784,628	2,232,857	39,017,485	47,294,311	9,586,706	56,881,017
Percentage of Increase (+) or Decrease (—) in—						
Period II in comparison 1 with Period I	—16.598	+87.613	—25,055	—9.028	—12.261	—9.657
Period III in comparison with Period II	+ 9.039	—5.661	+25.483	+ 15.659	+ 8.154	+ 14.240
Period IV in comparison with Period III	+28.126	+ 6.853	+26.682	+41.183	+31.304	+ 39.415
Period IV in comparison with Period I	+ 16.518	+89.122	+ 19.135	+48.549	+24.597	+ 43.887

TABLE XXVI

Trade of India with China

Annual Average.	Exports to China.			Imports from China.		
	Merchandise.	Treasure.	Total.	Merchandise.	Treasure.	Total.
	£	£	£	£	£	£
I 1889-93	9,454,014	20,223	9,474,238	1,666,840	1,992,914	3,659,754
II 1893-98	8,509,284	112,105	8,621,389	1,713,529	503,357	2,216,886
III 1898-1903	9,679,830	183,647	9,863,477	1,309,975	798',053	2,108,028
IV 1903-8—	12,461,535	160,879	12,622,414	1,248,822	919,402	2,168,224
Percentage of Increase (+) or Decrease (—) in—						
Period II in comparison with Period I	—9.993	+ 454.333	—9.002	+ 2.801	—74.743	—39.425
Period III in comparison with Period II	+ 13.756	+ 63.817	+ 14.407	—23.551	+58.546	—4.910
Period IV in comparison with Period III	+28.737	—12.398	+27.971	—4.668	+ 15.206	+ 2.856
Period IV in comparison with Period I	+31.812	+695.508	+33.229	—25.078	—53.866	—40.755

That the arrest in the fall of the rupee should have lifted the burden from Indian finances was just as was expected to follow from the closure of the Mints. Notwithstanding important reductions in taxation and large expenditure of social utility, the annual budgets since the mint closure have shown few deficits (see p. 506).

Now there is a tendency among some writers to interpret these facts as unmistakable proofs of the soundness of the currency system. It is argued that if the trade of the country has not received a setback,* and if the finances of the country have improved,† then the implication is that the currency of which such results can be predicated must be good. It is not necessary to warn students of currency that such easy views on the soundness of the currency system, however plausible, are devoid of the logic necessary to carry conviction. Trade no doubt is dependent on good money, but the growth of trade is not a conclusive proof that the money is good. It should be noted that during the periods of debased coinages so common at one time the social misery and nuisance arising therefrom were intolerable, yet during the same periods it was possible for countries to make great advance in trade. Speaking of seventeenth-century England, when that country was afflicted with debased and constantly changing coinage and when there was, besides, a long period of civil war and confusion, Lord Liverpool, who was above all statemen of his day most alive to the evils of a bad currency, remarks :—

> "It is certain, however, that during the whole of this period, when our coins were in so great a state of confusion, the commerce of the kingdom was progressively improving, and the balance of trade almost always in favour of this country."‡

That commerce can increase even when currency is bad is easily supported from the experience of India herself. In no period did Indian trade make such strides as it did between 1873 and 1893. Was the Indian currency of that period good ? On the other hand, it is possible to hold that if trade is good it may be *because* the currency is bad. The trade of India between 1873 and 1893 flourished because it received a bounty. But the bounty was a mulcting of the Indian labourer, whose wages did not rise as fast as prices, so that the Indian prosperity of that

* Keynes, op. cit., p. 3.

† Barbour, D., *The Standard of Value,* p. 224.

‡ *A Treatise on the Coins of the Realm* (reprint of 1880), p. 135.

TABLE XXVII

Finances of the Government

Years.	Surplus + Deficit —	Years.	Surplus + Deficit —	Years.	Surplus + Deficit —	Years.	Surplus + Deficit —	Years.	Surplus + Deficit —
	Rs		£		£		£		£
1893-94	—1,546,998	1898-9	+ 2,640,873	1903-4	+ 2,996,400	1908-9	—3,737,710	1913-14	+ 2,312,423
1894-95	+ 693,110	1899-1900	+ 2,774,623	1904-5	+ 3,456,066	1909-10	+ 606,641	1914-15	-1,785,270
1895-96	+ 1,533,998	1900-1	+ 1,670,204	1905-6	+ 2,091,854	1910-11	+3,936,287	1915-16	-1,188,661
1896-97	—1,705,022	1901-2	+ 4,950,243	1906-7	+ 1,589,340	1911-12	+ 3,940,334	1916-17	+ 7,478,170
1897-98	—5,359,211	1902-3	+ 3,069,549	1907-8	+ 300,615	1912-13	+ 3,107,634	—	—

period was founded not upon production, but upon depredation made possible by the inflation of currency.

Similarly it cannot be granted without reserve that the new currency system must be good because it has obviated the burden of the gold payments and given relief to the Indian taxpayer. Such a view involves a misconception of the precise source of the burden of India's gold payments during the period of falling exchange. It has been widely held that the burden of gold payments was caused by the fall in the gold value of silver, a view which carried with it the necessary implication that if India had been a gold-standard country she would have escaped that heavy burden. That it is an erroneous view hardly needs demonstration.* It is not to be denied that India bore an extra burden arising from the increased value of the gold payments. But what is not sufficiently realized is that it was a burden which weighed on all gold debtors irrespective of the question whether their standard was gold or silver. In this respect the position of a gold-standard country like Australia was not different from a silver-standard country like India. In so far as they were gold debtors they suffered each in the same way from the same cause, namely the appreciation of the standard in which their debts were measured. The fact that one discharged her debts in gold and the other in Silver made no difference in their condition, except that the use of silver by India to discharge her debts served as a refractory medium through which it was possible to see the magnitude of the burden she bore. The fall of silver measured and not caused the burden of India's gold payments. The arrest in the fall of the rupee cannot be accepted as a *prima facie* proof of a relief to the taxpayer and therefore an evidence of the soundness of the currency system. It is possible that the benefit may have been too dearly paid for.

Although favourably impressed by the increase of trade and the buoyancy of Government finances under the exchange standard, the Chamberlain Commission did not care to found its case for it on the basis of such arguments. The chief ground on which it rested was that the currency system was capable of maintaining the exchange value of the rupee at a fixed par with gold.† We must therefore proceed to examine this claim made by the Commission on behalf of the exchange standard. The table No. XXVIII presents the requisite data for an elucidation of the question.

* Cf. evidence of Prof. Marshall before the Gold and Silver Commission, 1886 Q. 10,140-50.

† Report, pp. 18 and 20.

TABLE XXVIII

Gold Value of the Rupee

As expressed in Terms of Foreign Exchange Bates on London. Par R. = ls. 4d.					Years.	As expressed in Terms of Gold. (1) Rupee Price of Sovereigns. Par Rs. 15 = 1 Sovereign.						(2) Rupee Price of Bar Gold Par Tola = Rs. 23-14-4.					
Years.	Highest.		Lowest.			Highest.			Lowest.			Highest.			Lowest.		
	s.	d.	s.	d.		Rs.	A.	P.	Rs.	A.	P.	Rs.	A.	P.	Rs.	A.	P.
1892-93	1	3.969	1	2.625	1893	16	10	6	15	6	0	26	11	0	24	14	0
1893-94	1	4.031	1	1.500	1894	19	0	0	16	1	0	32	4	0	25	9	0
1894-95	1	1.906	1	0.000	1895	19	5	0	18	2	6	30	8	0	27	6	0
1895-96	1	2.875	1	1.000	1896	17	7	0	16	1	0	27	13	6	27	2	0
1896-97	1	3.842	1	1.781	1897	16	10	0	15	3	0	26	12	6	25	4	0
1897-98	1	4.125	1	2.250	1898	15	7	0	15	1	0	24	10	0	24	0	0
1898-99	1	4.156	1	3.094	1899	15	4	0	15	0	0	24	2	0	23	4	0
1899-1900	1	4.375	1	3.875	1900	15	1	3	15	0	0	24	2	0	23	15	6
1900-1901	1	4.156	1	3.875	1901	15	0	0	15	0	0	24	2	0	24	0	0
1901-1902	1	4.125	1	3.875	1902	15	4	6	15	2	6	24	2	6	24	0	0
1902-1903	1	4.156	1	3.875	1903	15	3	0	15	1	6	24	3	0	24	0	0
1903-1904	1	4.156	1	3.875	1904	15	5	0	15	1	3	24	2	0	24	0	3
1904-1905	1	4.156	1	3.970	1905	15	4	0	15	1	6	24	2	0	24	0	0
1905-1906	1	4.156	1	3.937	1906	15	1	0	15	2	0	24	4	6	24	0	0
1906-1907	1	4.187	1	3.937	1907	15	4	0	15	0	0	24	4	0	23	15	6
1907-1908	1	4.187	1	3.875	1908	15	1	0	15	0	0	24	10	0	24	2	0
1908-1909	1	4	1	3.875	1909	Premium between 12 and 3%						24	3	6	23	15	0
1909-1910	1	4.156	1	3.875	1910	15	5	0	15	0	0	24	4	0	23	15	0
1910-1911	1	4.156	1	3.87b	1911	15	0	0	15	0	0	24	0	6	23	14	0
1911-1912	1	4.156	1	3.937	1912	15	0	0	15	0	0	24	0	0	23	14	0
1912-1913	1	4.156	1	3.970	1913	15	0	0	15	0	0	24	0	3		—	
1913-1914	1	4.156	1	3.937	1914	15	14	0	15	2	0	26	10	0	23	15	6
1914-1915	1	4.094	1	3.937	1915	15	13	6	15	5	0	25	14	0	24	8	0

Assuming, for the moment, the criterion laid down by the Commission to be correct, can it be said from the data given above that the rupee has maintained its gold value ? It would be over-confident if not rash to say that the system, even from the narrow point of view of the Commission, has been an unquestioned success.

Between June, 1893, and January, 1917, the rupee was rated to gold at the rate of 1 rupee equal to 7.53344 troy grs. of fine gold. At that rate the sovereign should be equal to 15 rupees, the mint price of gold should be Rs. 23-14-4 per tola (i.e. 180 grs.) of bar gold 100 touch, and the exchange on London should be 1s. 4d., and should have varied within 1s. 4.125 d., the import point, and 1s. 3.906 d., the export point, for gold.

Taking a general survey of the stability of the rupee with regard to its value in terms of gold, it will be noticed that from the date of the Mint closure up to 1898 the rupee was far below par. The depreciation of the rupee, measured in terms of exchange or price of gold or sovereign, ranged somewhere between 25 to 30 per cent. So great was the depreciation that it redoubled the difficulties confronting the Government when the rupee was not fixed to gold. The financing the Home Treasury by the usual means of selling Council Bills became well-nigh impossible.* The Secretary of State found himself in an embarrassing position. Offering to sell below par involved the obloquy of having led the way to the defeat of the policy of stabilizing exchange. Refusing to sell at market rates involved the danger of a dry Treasury. The Government of India suggested that the Secretary should lay down a minimum rate for or a maximum amount of the bills that he put upon the market. The Secretary of State agreed to neither, but consented to reduce his drawings so as not to unduly depress the exchange rate. The drawings of the secretary of State during the first fiscal year since the Mint closure have been the smallest on record :—

TABLE XXIX

Council Drawings

Date of drawing			Amount of Drawings £ 1,000 omitted	Rate at which drawn (Pence per Rupee)
1893.	June	...	2,478	15.039
	July	...	25	15.974
	August	...	78	15.243
	September	...	7	15.350
	October	...	5	15.334
	November	...	617	15.251
	December	...	14	15.242
1894.	January	...	98	14.408
	February	...	1,023	13.787
	March	...	1,915	13.870
	April	...	1,368	13.626

* *See* Commons Paper 7 of 1894, East India (Currency and Sale of Bills).

The curtailment of drawings to save the rate of exchange from being lowered was not an unmitigated good, for it imposed the necessity of a resort to the by no means inexpensive method of sterling borrowings to finance the Home Treasury.* The remittances by drawings fell short of the net disbursements of the Home Treasury in 1893-94 by £6,588,000, which deficit was met by permanent sterling borrowings to the extent of £7,430,000, the interest on which added to the already overheavy burden of the gold payments. Rather than incur such a penalty the Secretary of State gave up the attempt to dominate the market and preferred to follow it. But this let-go policy was not without its cost. The drop in the exchange below 1s. 4d. added to the burden of remittances to the Home Treasury, and also compelled the Government to grant exchange compensation allowance to its European officers, civil and military—an aid which it had so far withheld. The cost to the Government involved by the fall of the rupee below par was quite a considerable sum.†

TABLE XXX

Cost of the Fall of the Rupee

Years	Loss on Council Bills being sold below par	Loss by Exchange Compensation Allowance	Loss by Increase of Pay of British Troops	Total on each Account in each Year	Total on all Counts for three Years	
					In Rupees	In Sterling at 1s. 4d.
					Rs.	£
1894-95 ...	3,74,15,000	78,02,000	37,84,000	4,90,01,000		
1895-96 ...	3,05,91,000	87,18,000	49,38,000	4,42,47,000	11,91,86,000	7,945,733
1896-97 ...	1,66,48,000	48,95,000	44,25,000	2,59,38,000		

In the midst of such a situation it is no wonder if the faith of the Government in the ultimate stability of the rupee had given way, for we find that in October, 1896, the Financial Member of the Council had personally come to the conclusion that it would be better in the interest of stability to substitute 15d. for 16d. as the par of exchange between the rupee and gold.‡ But the suggestion was dropped as the rupee showed signs of reaching the gold par, which it did in January, 1898, after a period of full five years of depreciation from the established par.

* Evidence of Sir H. Waterfield before the Fowler Committee, Q. 4,332-39.

† Evidence of Hon. A. Arthur before the Fowler Committee. Q. 1,806-7.

‡ Cf. Shirras, *Indian Finance and Banking,* p. 168.

Between January, 1898, and January, 1917, twice did the rupee fall below its gold par. The year 1907-8 records the second occasion when the parity of the rupee under the exchange standard broke down. The actual rates of exchange prevailing in the market were as follows:—

TABLE XXXI

RATES OF EXCHANGE, LONDON ON INDIA (FROM "THE TIMES")

Par R. = 1s. 4d.

Date			On Calcutta				On Bombay			
			Highest		Lowest		Highest		Lowest	
1907.	September	...	1	$4\frac{1}{32}$	1	$3\frac{31}{32}$	1	$4\frac{1}{32}$	1	$3\frac{31}{32}$
	October	...	1	$4\frac{1}{32}$	1	$3\frac{31}{32}$	1	$4\frac{1}{32}$	1	$3\frac{31}{32}$
	November	...	1	4	1	$3\frac{25}{32}$	1	$3\frac{31}{32}$	1	$3\frac{23}{32}$
	December	...	1	$3\frac{15}{16}$	1	$3\frac{27}{32}$	1	$3\frac{15}{16}$	1	$3\frac{27}{32}$
1908.	January	...	1	$3\frac{15}{16}$	1	$3\frac{29}{32}$	1	$3\frac{15}{16}$	1	$3\frac{7}{8}$
	February	...	1	$3\frac{31}{32}$	1	$3\frac{7}{8}$	1	$3\frac{31}{32}$	1	$3\frac{7}{8}$
	March	...	1	$3\frac{29}{32}$	1	$3\frac{27}{32}$	1	$3\frac{29}{32}$	1	$3\frac{27}{32}$
	April	...	1	$3\frac{7}{8}$	1	$3\frac{27}{32}$	1	$3\frac{27}{32}$	1	$3\frac{27}{32}$
	May	...	1	$3\frac{7}{8}$	1	$3\frac{27}{32}$	1	$3\frac{15}{16}$	1	$3\frac{27}{32}$
	June	...	1	$3\frac{29}{32}$	1	$3\frac{27}{32}$	1	$3\frac{7}{8}$	1	$3\frac{27}{32}$
	July	...	1	$3\frac{7}{8}$	1	$3\frac{27}{32}$	1	$3\frac{7}{8}$	1	$3\frac{27}{32}$
	August	...	1	$3\frac{29}{32}$	1	$3\frac{27}{32}$	1	$3\frac{29}{32}$	1	$3\frac{27}{32}$
	September	...	1	$3\frac{31}{32}$	1	$3\frac{29}{32}$	1	$3\frac{31}{32}$	1	$3\frac{7}{8}$
	October	...	1	$3\frac{15}{16}$	1	$3\frac{7}{8}$	1	$3\frac{29}{32}$	1	$3\frac{15}{16}$
	November	...	1	$3\frac{29}{32}$	1	$3\frac{7}{8}$	1	$3\frac{7}{8}$	1	$3\frac{7}{8}$
	December	...	1	$3\frac{15}{16}$	1	$3\frac{29}{32}$	1	$3\frac{31}{32}$	1	$3\frac{7}{8}$

After a crisis lasting over a year the rupee recovered to its old gold par and remained fixed at it, though by no means firmly, for another seven years, only to suffer another fall from its parity during the year 1914-15 (*see* table, p. XXXII).

After 1916 the stability of the exchange standard was threatened by a danger arising from quite unsuspected quarters. The Indian exchange standard was based upon the view that the gold value of silver was bound to fall or at least not likely to rise to a level at which the intrinsic value of the rupee became , higher than its nominal value. The price of silver at which the intrinsic value of the rupee equalled its nominal value was 43d. per ounce. So long as the intrinsic value of the rupee remained

TABLE XXXII

RATES OF EXCHANBE, LONDON ON CALCUTTA (FROM THE NATIONAL BANK OF INDIA)

Month	1914		1915	
	Highest	Lowest	Highest	Lowest
January	...	...	1 $3\frac{15}{16}$	1 $3\frac{15}{16}$
February	...	...	1 $4\frac{1}{32}$	1 $3\frac{39}{32}$
March	...	...	1 4	1 $3\frac{15}{16}$
April	...	...	1 $3\frac{15}{16}$	1 $3\frac{29}{32}$
May	1 $4\frac{1}{4}$	1 $3\frac{15}{16}$	1 $3\frac{15}{16}$	1 $3\frac{7}{8}$
June	1 $3\frac{31}{32}$	1 $3\frac{15}{16}$	1 $3\frac{7}{8}$	1 $3\frac{27}{32}$
July	1 $3\frac{31}{32}$	1 $3\frac{13}{16}$	1 $3\frac{22}{32}$	1 $3\frac{23}{32}$
August	1 $3\frac{7}{8}$	1 $3\frac{13}{16}$	1 $3\frac{15}{16}$	1 $3\frac{27}{32}$
September	1 $3\frac{15}{16}$	1 $3\frac{13}{16}$	1 4	1 $3\frac{15}{16}$
October	1 $3\frac{15}{16}$	1 $3\frac{15}{16}$	...	...
November	1 $3\frac{15}{16}$	1 $3\frac{15}{16}$	...	...
December	1 $3\frac{15}{16}$	1 $3\frac{15}{16}$	...	...

below its nominal value, i.e. the price of silver did not rise above 43d., there was no danger of the rupee circulating as currency. Once the price of silver rose above that point the danger of the rupee passing from currency to the melting-pot was imminent. Now, with the exception of a brief period from September, 1904, to December, 1907, the gold price of silver had since 1872 showed a marked tendency to fall. The decline in its price was so continuous and so steady as to create the general impression that the low price had come to stay. Indeed, so firm was the impression that the framers of the exchange standard had never taken into account the contingency of a rise in the price of silver above 43d. So little was it anticipated, that the system was not criticized on this ground by any of the witnesses who deposed before the successive Committees and Commission on Indian currency. But the unexpected may happen, and unfortunately did happen after 1916, and happened suddently. On February 10, 1914, the cash price in London of silver per ounce of standard fineness was 26 5/8d. It fell to 22 11/16d. on February 10, 1915, and though it jumped to 27d. on the same date in 1916, yet it was below the rupee melting-point. After the last-mentioned date its rise was meteoric. On February 9, 1917, it rose to 37 5/8 d.; on February 8, 1918, to 43d.; and on the same date in 1919 to 48 7/16d., thereby quite overshooting the rupee melting-point. But the price of silver broke all record when on February 11, 1920, it reached the colossal figure of 89 ½d. per standard ounce.

The rise in the intrinsic value of the rupee above the nominal value at once raised a problem as to how the rupee could be preserved in circulation. Two ways seemed open for the solution of the problem. One was to scale down the fineness of the rupee, and the other to raise its gold parity. All other countries which had been confronted by a similar problem adopted the former method of dealing with their silver coinage—a method which was successfully tried in the Philippines and the Straits Settlements and Mexico in 1904-7, when a rise in those years in the price of silver had created a similar problem in those countries.* The Secretary of State for India adopted the second course of action and kept on altering the rupee par with every rise in the price of silver. The alterations of the rupee par following upon the variations in the price of silver are given below:—

TABLE XXXIII

Date of Alteration of the Rupee Par.	Pitch of the Par.	
	s.	d.
January 3, 1917	1	4¼
August 28, 1917	1	5
April 12, 1918	1	6
May 13, 1919	1	8
August 12, 1919	1	10
September 15, 1919	2	0
November 22, 1919	2	2
December 12, 1919	2	4

After having played with the rupee par, for two years, in this manner, as though such alterations involved no social consequences, the Secretary of State, on May 30, 1919, appointed a new Currency Committee under the chairmanship of Babing-ton Smith, to recommend measures "to ensure a stable gold exchange standard." The majority of the Committee, after half a year of cogitation, reported to the effect† that

* Cf. E. W. Kemmerer, *Modem Currency Reforms,* 1916, pp. 349-354, 445-49, and 535-47.

† *See* Report, P.P.Cd. 527 of 1920, par. 59.

"(i) The object should be to restore stability to the rupee, and to re-establish the automatic working of the currency system at as early a date as practicable.

"(ii) The stable relation to be established should be with gold and not with sterling.

"(iii) The gold equivalent of the rupee should be sufficiently high to give assurance, so far as is practicable, that the rupee, while retaining its present weight and fineness, will remain a token coin, or in other words, that the bullion value of the silver it contains will not exceed its exchange value.

"After most careful consideration" (the Committee said) "we are unanimous (with the exception of one of our members who signs a separate report) in recommending that the stable relation to be established between the rupee and gold should be at the rate of one rupee to 11.30016 grs. of fine gold both for foreign exchange and internal circulation." i.e. the rupee to be equal to 2s. (gold).

The minority report, which harped on the old cry of a stimulus of low exchange and penalty of high exchange, stood out for the maintenance of the old rate of 15 rupees to the gold sovereign or 113.0016 grs. troy of pure gold, and recommended the issue of a two-rupee silver coin of reduced fineness compared with the old rupee, so long as the price of silver in New York was over 92 cents.*

By the announcements of February 2, 1920, the recommendations of the majority of the Committee were accepted by the Secretary of State and also by the Government of India, which abandoned the old parity of 7.53344 grs. per rupee for the new parity of 11.30016 grs. troy. Now, has the rupee maintained its new parity with gold ?

In the matter of ascertaining this fact the exchange quotation on London is no guide, for the value of the rupee was 2s. *gold* and not 2s. sterling. Had gold and sterling been identical the case would have been otherwise. But during the war, owing to the issue of virtually inconvertible money, the pound sterling had depreciated in terms of gold. We must therefore take as our standard a currency which had kept its par with gold. Such a currency was the American dollar, and the exchange quotation

* Report, p. 41.

on New York is therefore more directly helpful in measuring the gold value of the rupee than is the sterling quotation on London. We can also employ the actual rupee-sterling quotation as a measure by comparing it with the amount of sterling the rupee should have purchased, as an equivalent of 11.30016 grs. of fine gold, when corrected by the prevailing cross-rate between New York and London.*

Compared with the par of exchange, the actual exchange, either on New York or on London, indicates a fall of the rupee which is simply staggering (*See* table XXXIV).

Consider, along with the external gold value of the rupee, its internal value in terms of sovereigns and bar gold (*see* table XXXV).

The tables need no comment. The rupee is not only far away from 2s. (gold), but is not even 1s. 4d. (sterling).

Do not the facts furnish an incontrovertible proof of the futility of the exchange standard ? How can a system which fails to maintain its value in terms of gold, which it is supposed to do, be regarded as a sound system of currency ? There must be somewhere some weakness in the mechanism of a system which is liable to such occasional breakdowns. The rupee fell or rather was below par in 1893, and did not reach its parity to any real degree of firmness until 1900. After an interval of seven years the rupee again falls below par in 1907. The year 1914 witnesses another fall of the rupee. A meteoric rise since 1917, and again a fall after 1920. This curious phenomenon naturally raises the question : Why did the rupee fail to maintain its gold parity on these occasions ? A proper reply to this question will reveal wherein lies the weakness of the exchange standard.

* The formula for this computation is as follwos :—

if x pence = 1 rupee

= 11.30016 grs. fine gold,

2:3.22 grs. fine gold = 1 dollar

D dollars = 1 pound sterling

= 240 pence.

$$\text{Then } x \quad \frac{11.30016 \times 240}{23.22 \times D} = \frac{11,680}{D} \text{ pence.}$$

Cf. Rushforth, F. V., *The Indian Exchange Problem,* 1921, p. 9.

TABLE XXXIV

Actual Gold Value of the Rupee and the new Parity in Terms of Foreign Exchanges

As in the Middle of the Month of—	New York on Bombay in cents.						Bombay on London in s. d.					
	1920.		1921.		1922.		1920.		1921.		1922.	
	Par Rate.	Actual Rate.	Par Rate.	Actual Rate.	Par Rate.	Actual Rate.	Par Rate.	Actual Rate.	Par Rate.	Actual Rate.	Par Rate.	Actual Rate.
January .	0.4866	0.4400	0.4866	0.2925	0.4866	0.2800	2 7½	2 $3^{5}/_{8}$	2 $7^{5}/_{16}$	1 $5^{5}/_{8}$	2 $3^{5}/_{8}$	1 $3^{1}/_{1}{}^{3}/_{6}$
February .	0.4866	0.4850	0.4866	0.2800	0.4866	0.2845	2 10_{3}½	2 $9^{1}/_{8}$	2 $5^{1}/_{1}{}^{3}/_{6}$	1 $4^{1}/_{8}$	2 $2^{7}/_{32}$	1 $3^{9}/_{16}$
March . .	0.4866	0.4850	0.4866	0.2625	0.4866	0.2787	2 $7^{2}/_{3}{}^{9}/_{2}$	2 $5^{3}/_{4}$	2 $5^{3}/_{3}{}^{1}/_{2}$	1 $3^{1}/_{4}$	2 $2^{2}/_{3}{}^{9}/_{2}$	1 $3^{5}/_{16}$
April . .	0.4866	0.4775	0.4866	0.2625	0.4866	0.2785	2 $5^{7}/_{16}$	2 $3^{3}/_{4}$	2 $5^{1}/_{1}{}^{3}/_{6}$	1 $3^{5}/_{8}$	2 2½	1 $3^{1}/_{8}$
May . . .	0.4866	0.4325	0.4866	0.2675	0.4866	0.2930	2 $6^{1}/_{3}{}^{9}/_{2}$	2 $2^{1}/_{8}$	2 $5^{7}/_{32}$	1 $3^{1}/_{2}$	2 2¼	1 $3^{9}/_{16}$
June . .	0.4866	0.4125	0.4866	0.2525	0.4866	0.2900	2 $5^{3}/_{3}{}^{1}/_{2}$	1 $10^{1}/_{1}{}^{3}/_{6}$	2 $6^{2}/_{3}{}^{9}/_{2}$	1 $3^{3}/_{8}$	2 $2^{1}/_{8}$	1 $3^{1}/_{3}{}^{9}/_{2}$
July . . .	0.4866	0.3900	0.4866	0.2400	0.4866	0.2900	2 $5^{3}/_{3}{}^{1}/_{2}$	1 $8^{1}/_{16}$	2 $8^{9}/_{32}$	1 3¼	2 $2^{5}/_{8}$	1 $3^{5}/_{8}$
August . .	0.4866	0.3650	0.4866	0.2475	0.4866	0.2916	2 $8^{9}/_{32}$	1 $10^{1}/_{16}$	2 $7^{2}/_{3}{}^{9}/_{3}$	1 $4^{3}/_{4}$	2 $2^{3}/_{16}$	1 $3^{1}/_{3}{}^{9}/_{2}$
September .	0.4868	0.3325	0.4866	0.2675	0.4866	0.2875	2 $9^{9}/_{16}$	1 $10^{1}/_{16}$	2 $7^{1}/_{3}{}^{5}/_{2}$	1 $5^{1}/_{16}$	2 $2^{6}/_{16}$	1 $3^{9}/_{16}$
October .	0.4866	0.3025	0.4866	0.2825	0.4866	—	2 $9^{2}/_{3}{}^{1}/_{2}$	1 $7^{3}/_{4}$	2 $6^{1}/_{32}$	1 $5^{7}/_{16}$	—	—
November .	0.4866	0.3025	0.4866	0.2695	0.4866	—	2 $10^{9}/_{16}$	1 $7^{1}/_{8}$	2 $5^{1}/_{3}{}^{6}/_{2}$	1 $4^{1}/_{8}$	—	—
December .	0.4866	0.2650	0.4866	0.2775	0.4866	—	2 $9^{9}/_{16}$	1 $5^{1}/_{4}$	2 4	1 $3^{7}/_{8}$	—	—

TABLE XXXV

Gold Value of the Rupee and the new Parity in Terms of the Price of Sovereigns and Gold

Months	1920		1921		1922	
	Price of British Sovereigns Par 10 Rs. = 1 Sov.	Price of Bar Gold per Tola 100 touch Par Rs. 15-14-10 = 1 Tola	Price of British Sovereigns Par 10 Rs. = 1 Sov.	Price of Bar Gold per Tola 100 Touch Par Rs. 15-14-10 =1 Tola	Price of British Sovereigns Par 10 Rs. = 1 Sov.	Price of Bar Gold per Tola 100 touch Par Rs. 15-14-10 =1 Tola
	Rs. A. P.	Rs. A. P.	Rs. A. p.	Rs. A. P.	Rs. A. p.	
January ...	Nominal	28 0 0	Nominal	Official Figures not yet published	17 14 0	Official Figures not yet published
February ...	”	22 0 0	”		17 14 0	
March ...	”	24 0 0	”		17 14 0	
April ...	”	24 8 0	18 12 0		...	
May ...	”	22 12 0	19 0 0		...	
June ...	”	22 4 0	19 12 0		...	
July ...	”	23 0 0	20 9 0		...	
August ...	”	21 8 0	20 9 0		...	
September ...	”	25 4 0	19 2 0		...	
October ...	”	27 6 0	18 14 0		...	
November ...	”	28 10 0	18 8 0		...	
December ...	”	27 12 0	18 6 0		...	

The only scientific explanation sufficient to account for the fall of the rupee would be to say that the rupee had lost its general purchasing power. It is an established proposition that a currency or unit of account will be valued in terms of another currency or unit of account for what it is worth, i.e. for the goods which it will buy. To take a concrete example, Englishmen and others value Indian rupees inasmuch and in so far as those rupees will buy Indian goods. On the other hand, Indians value English pounds (and other units of account, for that matter) inasmuch and in so far as those pounds will buy English goods. If rupees in India rise in purchasing power (i.e. if the Indian prices level falls) while pounds fall in purchasing power or remain stationery or rise less rapidly (i.e. if the English price level rises relative to the Indian price-level), fewer rupees would be worth as much as pound, i.e. the exchange value of the rupee in terms of the pound will rise. On the other hand, if rupees in India fall in purchasing power (i.e. if the Indian price-level rises) while pounds rise in purchasing power or remain stationary or fall less rapidly (i.e. if the English price-level falls relative to the Indian price-level), it will take more rupees to be worth as much as a pound, i.e. the exchange value of the rupee in terms of the pound will fall.

On the basis of this theory the real explanation for a fall in the Indian exchange should be sought for in the movement of the Indian price-level. Lest there be any doubt regarding the validity of the proposition let us take each of the occasions of the fall and find out whether or not the fall was coincident with the fall in the purchasing power of the rupee.*

TABLE XXXVI

PERIOD I, 1890-99

Years	Currency in Rupees Circulation + Notes		Index Number of prices in India 1890-94=100	Index Number of prices in England 1890-94 = 100
	Amount in Crores of Rs.	Index Number 1890-94 = 100		
(1)	(2)	(3)	(4)	(5)
1890 ...	120	92	113	104
1891 ...	131	100	106	105
1892 ...	141	108	100	99
1893 ...	132	101	96	99
1894 ...	129	99	85	93
1895 ...	132	101	89	90
1896 ...	127	97	99	89
1897 ...	125	96	120	90
1898 ...	122	93	109	91
1899 ...	131	100	108	94

TABLE XXXVII

PERIOD II, 1900-1908

Years	Currency in Rupees Circulation + Notes		Index Number of prices in India 1890-94 = 100	Index Number of prices in England 1890-94=100
	Amount in Crores of Rs.	Index Number 1890-94 = 100		
(1)	(2)	(3)	(4)	(5)
1900 ...	134	103	126	103
1901 ...	150	115	120	98
1902 ...	143	109	115	96
1903 ...	147	113	111	97
1904 ...	152	116	110	100
1905 ...	164	126	120	100
1906 ...	185	142	134	107
1907 ...	190	145	138	113
1908 ...	181	139	147	104

* The figures for the following tables are taken, unless otherwise stated, from the Report of the Price Inquiry Committee, Calcutta, 1914.

TABLE XXXVIII

PERIOD III, 1909-14*

Years	Currency in Rupees — Amount in Crores of Rs.	Circulation + Notes — Index Number 1890-94 = 100	Index Number of prices in India 1890-94 = 100	Index Number of prices in England 1890-94 = 100
(1)	(2)	(3)	(4)	(5)
1909 ...	198	152	138	105
1910 ...	199	152	137	110
1911 ...	209	160	139	114
1912 ...	214	164	147	117
1913 ...	238	182	152	124
1914 ...	237	182	156	124

* Figures for 1913 and 1914 are those of Mr. Shirras given in the Appendix to his Indian Finance and banking. Figures in column 3 are calculated from his figures.

TABLE XXXIX

PERIOD IV, 1915-1921*

Years	Currency in Rupees — Amount in Crores of Rs.	Circulation + Notes — Index Number 1913 = 100	Index Number of prices in India 1913=100	Index Number of prices in England 1913=100
(1)	(2)	(3)	(4)	(5)
1915 ...	266	104	112	127.1
1916 ...	297	116	125	159.5
1917 ...	338	132	142	206.1
1918 ...	407	155	178	226.5
1919 ...	463	180	200	241.9
1920 ...	411	160	209	295.3
1921 ...	393	114	183	182.4

* Index numbers of prices are taken from the League of Nations *Memorandum on Currency,* 1913-1921, 2nd Ed. (1922). Table VIII. Figures for Circulation are taken from H. S. Jevon's. *The Future of Exchange and Indian Currency,* 1922, p. 44, Index numbers of circulation are calculated.

Now do these tables confirm, or do they not, the argument that the fall in the gold value of the rupee is coincident with a fall in the general purchasing power of the rupee ? What was the general purchasing power of the rupee when a fall in its gold value occurred ? If we scrutinize the facts given in the above tables in the light of this query there can be no doubt as to the validity of this argument. From the tables it will be seen that the gold value of the rupee improved between 1893-1898 because there was a steady, if not unbroken, improvement in its general purchasing power. Again, on the subsequent occasions when the exchange fell, as it did in 1908, 1914, and 1920, it will be observed that those were the years which marked the peaks in the rising price-level in India ; in other words, those were the years in which there was the greatest depreciation in the general purchasing power of the rupee. A further proof, if it be needed, of the argument that the exchange value of the rupee must ultimately be governed by its general purchasing power is afforded by the movements of the rupee-sterling exchange since 1920 (*see* Table XL).

But, although such is the theoretical view confirmed by statistical evidence of the causes which bring about these periodic falls in the gold value of the rupee (otherwise spoken of as the fall of exchange), it is not shared by the Government of India. The official explanation is that a fall in the gold value of the rupee is due to an adverse balance of trade. Such is also the view of eminent supporters of the exchange standard like Mr. Keynes* and Mr. Shirras.†

No doubt, some such line of reasoning is responsible for the currency fiasco of 1920. How is it possible otherwise to explain the policy of raising the exchange value of the rupee ? Both the Smith Committee on Indian Currency‡ and the Government of India§ were aware of the fact that the rupee was heavily depreciated, as evidenced by the rise of prices in India.

*Op. cit., p. 16.

† op. cit, p. 4.

‡Cf. Report, pp. 19-21.

§ Memorandum from the Government regarding Indian price movements. App. XXVIII to the Report of the Currency Committee of 1919.

TABLE XL

Date			Rupee Prices in India. 1913=100	Sterling Price in England *(Statist)*. 1913=100	Average Rate of Exchange London on Calcutta	Rupee-Sterling Purchasing Power Parity . 16dx $\frac{\text{Col. 3}}{\text{Col. 2}}$
(1)			(2)	(3)	(4)	(5)
					d.	d.
1920.	January	...	202	289	27.81	22.89
	February	...	203	306	32.05	24.12
	March	...	194	301	29.66	25.40
	April	...	193	300	27.88	25.95
	May	...	190	298	25.91	25.77
	June	...	192	293	23.63	25.08
	July	...	196	282	22.63	24.49
	August	...	193	263	22.75	24.70
	September	...	188	244	22.31	24.94
	October	...	188	232	19.88	24.00
	November	...	186	215	19.69	22.62
	December	...	179	209	17.44	21.81
1921.	January	...	169	200	17.66	21.96
	February	...	164	191	16.31	20.98
	March	...	162	183	15.53	20.40
	April	...	163	186	15.75	19.63
	May	...	170	182	15.44	17.98
	June	...	172	176	15.53	17.14
	July	...	171	163	15.38	17.40
	August	...	178	161	16.25	16.36
	September	...	178	157	17.22	15.82
	October	...	178	156	17.02	14.65
	November	...	173	161	16.25	14.89
	December	...	169	157	15.94	14.86
1922.	January	...	162	156	15.88	15.41
	February	...	159	156	15.59	16.70
	March	...	160	157	15.34	15.70
	April	...	160	159	15.19	15.90
	May	...	162	159	15.59	15.70
	June	...	169	160	15.63	15.14
	July	...	170	158	15.69	14.87
	August	...	166	153	15.66	14.74

Given this fact, any question of raising the gold value of the rupee to 2s. gold when the rupee had scarcely the power to purchase 1s. 4d. sterling was out of the question. The Committee indulged in loose talk about stabilizing the Indian exchange. But even from this standpoint the Committee's insistence on linking the rupee to gold must be regarded as little grotesque. Stable exchange, to use Prof. Marshall's language, is something like bringing the railway gauges of the world in unison with the main line. If that is what is expected from a stable exchange, then what was the use of linking the rupee to gold which had ceased to be the "main line" ? What people wanted was a stable exchange in terms of the standard in which prices were measured. Linking to gold involved unlinking to sterling, and it is sterling which mattered and not gold. Given this importance of sterling over gold, was any policy of exchange stabilization called for ? First of all it should have been grasped that such a policy could succeed only if it was possible to make sterling and rupee prices move in unison, for then alone could the ratio of interchange between them be the same. What control had the Government of India over the sterling ? They might have so controlled the rupee as to produce the effect desired, but all that might have been frustrated by an adverse move in the sterling. The success of the policy of linking to sterling would have been highly problematical although highly desirable. But was it called for ?

Now the problem of stabilization is primarily a problem of controlling abnormal deviations from the purchasing-power parity between two currencies. In the case of India there were no abnormal deviations from the rupee-sterling purchasing-power parity. On the other hand, the Indian exchange was moving in a more or less close correspondence with it. There was therefore no ground for originating any policy of exchange stabilization. But, supposing there were abnormal deviations and that, owing to some reasons known to it, the Committee believed that the exchange value of the rupee was not likely to return to the point justified by its general purchasing power, in that case the Committee should have fixed the exchange value well within the range of the purchasing power of the rupee. As it was, the value of the rupee fixed by the Committee the rupee never had. In giving a value to the rupee so much above its purchasing-power parity, it is obvious the Committee originated a solution for the simple problem of stabilizing the rupee which involved the much bigger and quite a different problem of deflation or raising the absolute value of the rupee. How was the object to be attained ? The Committee never considered that problem. And why ? Was it because the price of silver had gone up ? May be. But it is doubtful whether the Committee could have believed firmly that the value of silver was going to be permanently so high as to require a modification of the gold par. Anyone who cared to scrutinize the rise in the price of silver could have found that the rise was largely speculative and could not have been permanent.

TABLE XLI

PRICE OF SILVER IN STERLING (PENCE)*

Year	Highest	Lowest	Average	Range of Variation
1913	29 3/8	25 15/16	27 9/16	3 7/16
1914	27 3/4	22 1/8	25 5/16	5 5/8
1915	27¼	22 5/16	23 11/16	4 15/16
1916	37 1/8	26 11/16	31 5/16	10 7/16
1917	55	35 11/16	40 7/8	19 11/16
1918	49½	42 ½	47 9/16	7
1919	79 1/8	47 3/4	57 1/16	31 3/8
1920	89½	38 7/8	61 7/16	50 5/8
1921	43 3/8	30 5/8	37	12 3/4

But supposing that the rise in the price of silver was not speculative, did it follow that the rupee was appreciated ? The diagnosis of the Committee was an egregious blunder. With the facts laid before the Committee it is difficult to understand how anyone with a mere smattering of the knowledge of price movements could have concluded that because silver had appreciated the rupee had therefore appreciated. On the other hand, what had happened was that the rupee had depreciated in terms of general commodities, including gold and silver. Indeed, the appreciation of silver was a depreciation of the rupee. The following (Table XLII) is conclusive evidence of that fact :—

* From Kirkaldy's *British War Finance,* 1921, p. 35. Figures for 1921 are added from the Indian Paper Currency Report.

TABLE XLII

DEPRECIATION OF THE RUPEE

Date			Price of Bar Gold in India (Bombay) per Tola of 180 grs.			Price of Silver in India (Bombay) per 100 Tolas			Index Number for Prices in India 1913=100
				Rs.	A.		Rs.	A.	
1914		...		24	10		65	11	...
1915		...		24	14		61	2	112
1916		...		27	2		78	10	125
1917		...		27	11		94	10	142
1918	August	...	(July)	34	0	(May 16)	117	2	178
”		...				(Nov. 28)	82	10	...
”		...		30	0		...		...
”	Sept.	...		32	4		...		...
1919	March	...		32	0		113	0	200

Thus, the rise in the price of silver was a part of the general rise of prices of the depreciation of the rupee. The Committee desired to raise the gold value of the rupee to 10 rupees per sovereign when it cost twice that number of rupees to purchase a sovereign in the market. So marked was the depreciation of the rupee in terms of gold that a few months before the Committee submitted its report the *Statesman* (a Calcutta paper) wrote:—

> “If you land in the country with a sovereign the Government will take it away from you and give you eleven rupees three annas in return. If you are in the country and happen to have a sovereign and take it to the currency office you will get firfteen rupees for it. On the other hand, if you take it to the bazar you will find purchasers at twenty-one rupees.”

These facts were admitted by the Finance Department of the Government of India to be substantially correct,* and yet in the face of them the Committee recommended the 2s. gold parity for the rupee. The Committee confused the rupee with the silver, and thus failed to distinguish the problem of retaining the rupee in circulation and raising its exchange value in terms of gold. The latter solution was applicable only if the *rupee* had appreciated. But as it was silver that had appreciated in terms

* Cf. the reply of the Hon. Mr. Howard to the question of the Hon. Mr. Sinha on September 23, 1919. *S.L.C.P.,* Vol. LVII, p. 417.

of the rupee, the only feasible solution was to have proposed the reduction of the fineness of the rupee. Had the Committee regarded silver as a commodity distinct from the rupee like any other commodity to be measured in terms of the rupee as a unit of account, probably it might have avoided committing the blunder which it did. But what is more than probable is that the Committee did not think that the general purchasing power of the rupee was a factor of any moment in the consideration of the matter it was asked to report upon. What was of prime importance in its eyes for the maintenance of the exchange value of the rupee was a favourable balance of trade, and that India had at the time the Committee drafted its Report. For the Committee, in the course of its general observations on the exchange standard, remarked :

> "that the system had proved effectual in preventing the fall in the value of the rupee below 1s. 4d., and unless there should have been profound modifications in India's position as an exporting country with a favourable trade balance, there was no reason to apprehend any breakdown in this respect."*

Proceeding on this view of the question it was quite natural for the Committee to have argued that if a favourable balance of trade sustained 1s. gold exchange, why should a similar balance of trade not sustain 2s. gold exchange ?

Again, it is only on some such hypothesis that one can explain why the recommendations of the Committee were adopted at all when the necessity for their adoption had passed away. Even if the intrinsic value of the rupee exceeded its nominal value, there was no danger of a wholesale disappearance of the rupee from circulation in view of the enormous volume of rupees in India.† What would have taken place was not a wholesale melting of rupees, but a constant dribble of an irregular and illegal character leading to the contravention of the orders then issued by the Government of India against the melting or exportation of the rupee coin. At the time when the Committee reported (December, 1919) the price of silver was no doubt high, but it was certainly falling during 1920 when the Government

* Report, par. 33.

† Cf. evidence of Mr. Keynes before the Committee of 1919. Q. 2,665-68.

took action on the Report. Indeed, on August 31, 1920, when the Bill to alter the gold value of the rupee was introduced into the Council, gold was selling at 23¼ rupees to the tola, while if the sovereign was to be equal to 10 rupees, the market price of gold should have been Rs. 15-14-0 per tola, so that there was a difference of Rs. 7½ or 33 per cent. between the market ratio of gold to the rupee and the new mint ratio. Moreover, the price of silver had also gone down in the neighbourhood of 44d., so that there was no danger of the rupee being melted out of circulation.* But, notwithstanding such a disparity, the Government rushed to fix a higher gold parity for the rupee. The financial reason for this rash act was of course obvious. The impending constitutional changes were to bring about a complete separation between provincial and imperial finance in British India. Under the old system of finance it was open for the central Government to levy "benevolences" in the form of contributions on the Provincial Governments to meet such of its imperious wants as remained unsatisfied with the help of its own resources, apart from the lion's share it used to take at every settlement of the provincial finance. Under the new constitution it was to be deprived of this power. The Central Government was therefore in search of some resource to obtain relief without appearing to tax anybody in particular. A high exchange seemed to be just the happy means of doing it, for it was calculated to effect a great saving on the "home charges." But how was this high exchange to be maintained, supposing it was desirable to have a high exchange from the financial point of view ?† Not only had the price and silver gone down and the rupee shown evident marks of depreciation in terms of gold, but the balance of trade had also become adverse to India at the time when the government proceeded to take action on the Report of the Committee. But this enactment, so singular in its rashness, was none the less founded upon the hope that the balance of trade would become favourable in time and thus help to maintain the 2s. gold value of the rupee. That this is a correct

* Cf. the speech of the Hon. Mr. Tata on the Indian Coinage (Amendment) Bill, *S.L.C.P.,* Vol. LIX, p. 112.

† In the recent discussions on the Indian exchange it has been entirely overlooked that this was the underlying motive of raising the Indian exchange to 2s. gold. But it was laid bare by the Finance Member of the Council in his speech on March 10, 1920, in the course of the debate on the resolution *re* Reverse Councils, *S.L.C.P.,* Vol. LVIII, p. 1292.

interpretation of the Government's calculations is borne out by the following extract from the letter which it addressed to the Bengal Chamber of Commerce in explanation of the currency fiasco.* After speaking of the necessity for granting international credits to revive commerce, the letter goes on to say:—

> " But for the rest they [i.e. the Government of India] can now only rely on the natural course of events and the return of favourable export conditions, combined with the reduction of imports...... to strengthen the exchange. Experience has demonstrated that in the present condition of the world trade stability is at present unattainable, but the Government of India see no reason why the operation of natural conditions...... should not allow of the eventual fixation of exchange at the level advocated in the report of the Currency Committee."

Which of the two views is correct ? Is it the low purchasing power of the rupee which is responsible for its fall, or is it due to an adverse balance of trade ? Now, it must at once be pointed out that an adverse balance of trade, as an explanation of the fail of exchange, is something new in Indian official literature. A fall of exchange was a common occurrence between 1873 and 1893, but no official ever offered the adverse balance of trade as an explanation. Again, can the doctrine of the adverse balance of trade furnish an ultimate explanation for the fall that occurred in 1907, 1914, and 1920? First of all, taking into consideration all the items visible and invisible, the balance-sheet of the trade of a country must balance. Indeed, the disquisitions attached to the Indian Paper Currency Reports wherein this doctrine of adverse balance as a cause of fall in exchange is usually to be found, never fail to insist that there is no such thing as a "drain" from India by showing item by item how the exports of India are paid for by the imports, even in those years in which the exchange has fallen. The queer thing is, the same Reports persist in speaking of an adverse balance of trade. Given the admission that all Indian exports are paid for, it is difficult to see what remains to speak of as a balance. Why should that part of trade liquidated by money be spoken of as a "balance" ? One might as well speak of a balance of

* The letter was published in the *Times of India,* November 20, 1920, p. 14, col. 6.

trade in terms of cutlery or any other commodity that enters into the trading operations of the country. The extent to which money enters into the trading transactions of two countries is governed by the same law of relative values as is the case with any other commodity. If more money goes out of a country than did previously, it simply means that relatively to other commodities it has become cheaper. But if there is such a thing as an adverse balance in the sense that commodity imports exceed commodity exports, then there arises the further question : Why do exports fall off and imports mount up ? In other words, given a normal equilibrium of trade, what causes an adverse balance of trade ? For this there is no official explanation. Indeed, the possibility of such a query is not even anticipated in the official literature. But the question is a fundamental one. An adverse balance of trade in the above sense is only another way of stating that the country has become a market which is good to sell in and bad to buy from. Now a market is good to sell in and bad to buy from when the level of prices ruling in that market is higher than the level of prices ruling outside. Therefore, if an adverse balance of trade is the cause of the fall of exchange, and if the adverse balance of trade is caused by internal prices being higher than external prices, then it follows that the fall of exchange is nothing but the currency's fall in purchasing power, which is the same thing as the rise of prices. The adverse balance of trade is an explanation a step short of the final explanation. Try to circumvent the issue as one may, it is impossible to escape the conclusion that the fall in the exchange value of the rupee is a resultant of the fall in the purchasing power of the rupee.

Now what is the cause of the fall in the purchasing power of the rupee ? In that confused, if not absurd, document, the Report of Price Inquiry Committee,* one cause of the rise of prices in India was assigned, among others,† to the decline in supplies relatively to population. In view of the more or less generally accepted theory of quantity of a currency as the chief determinant of its value, the line of reasoning adopted by the

* This Committee was appointed in 1910 to investigate into the rise of prices in India and was composed of Messrs. Datta, Shirras, and Gupta. The first and the last named commissioners being members of the Finance Department of the Government of India, the Committee may be regarded as more or less an official body. The results of its investigations appeared in 1914 in five volumes, Vol. I of which contained the Report signed by Mr. Datta.

† *See* Report, paras. 126-27.

Committee is somewhat surprising. But there is enough reason to imagine why the Committee preferred this particular explanation of the rise of prices. The position of the Government with regard to the management of the Indian currency is somewhat delicate. Already the issue of paper currency was in the hands of the Government. By the Mint closure it took over the management of the rupee currency as well. Having the entire control over the issue of currency, rupee and paper, the Government becomes directly responsible for whatever consequences the currency might be said to produce. It must not, also, be forgotten that the Government is constantly under fire from an Opposition by no means over-scrupulous in the selection of its counts. As a result of this situation the Government walks very warily, and is careful as to what it admits. Lord Castlereagh, in the debate on Horner's resolution of 1811 stating that bank notes were depreciated by over-issue, asked the House of Commons to consider what Napoleon would do if he found the House admitting the depreciation even if it was a fact. The Government of India is in the same position, and had to think what the Opposition would do if it admitted this or that principle. The reason why the Government of India adheres to the adverse balance of trade as an explanation of the fall of exchange is the same which led the Committee to ascribe the rise of prices to the shortage of goods. Both the doctrines have the virtue of placing the events beyond the control of the Government and thus materially absolving the Government from any blame that might be otherwise cast upon it. What can the Government do if the balance of trade goes wrong ? Again, is it a fault of the Government if the supply of commodities declines ? The Government can move safely under the cover of such a heavy armour!* But does the explanation offered by the Committee invalidate the explanation that the cause of the rise of prices in India was excess of currency ? The value of money is a resultant of an equation (of exchange)† between money and goods. To that equation there are obviously

* It may, however, be noted that this explanation of a shortage of goods, which was apparently offered as most likely to absolve the Government from any blame for having inflated the currency, was repudiated by the Government in its resolution reviewing the Report of the Committee, probably because such an admission on its part was likely to be interpreted as an argument to show that under it India was getting poorer. But the Government, in a hurry, did not realize that with the repudiation of this doctrine no other explanation was left except that of an increased issue of money to account for the rise of prices in India.

† *The words in bracket are inserted from the Problem of Rupee.*—Ed.

two sides, the money side and the commodity side. It is an age-worn dispute among economists as to which of the two is the decisive factor when the result of the equation of exchange undergoes a change, i.e. when the general price-level changes. There are economists who when discussing the value or the general purchasing power of money emphasize the commodity side in preference to the money side of the equation as the chief determinant of it. To them if prices in general fall it may not be due to scarcity of money ; on the other hand, it may be due to an increase in the volume of commodities. Again, if prices in general rise they prefer to ascribe it to a decrease in the volume of commodities rather than to an increase in the quantity of money. It is possible to take this position, as some economists choose to do, but to imagine that the quantity theory of money is thereby overthrown is a mistake. As a matter of fact, in taking that position they are not damaging the quantity theory in the least. They are merely stating it differently. The weakness of the position consists in failing to take note of what the effect on the general price-level would be if in speaking of increase or decrease of commodities they *included* a corresponding increase or decrease of currency. If the volume of commodities increases, including the volume of currency, then there is no reason why general prices should fall. Similarly, if the volume of commodities decreases, including the volume of currency, then there is no reason why general prices should fall. Similarly, if the volume of commodities decreases, including the volume of currency, then there is no reason why general prices should rise. The commodity explanation is but the reverse side of the quantity explanation of the value of money. Recasting the argument of the Committee in the light of what is said above, we can say without departing from its language that the rise of prices in India was due to the supply of currency not having diminished along with the diminution in the supply of goods. In short, the rupee fell in purchasing power because of currency being issued in excess, and there is scarcely any doubt that there has been a profuse issue of money in India since the closing of the Mints in 1893.

The first period, from 1893-98 was comparatively speaking the only period marked by a rather halting and cautious policy in respect of currency expansion. The reason no doubt was the well-known fact that at the time the Mints were closed the currency was already redundant. Yet the period was not immune from currency exapansion.* At the time the Mints were closed the silver bullion then in the hands of the people was depreciated as a result of the fall in its value due to the closure. An agitation was set up by interested parties to compel the Government to make good the loss. Ultimately, the Government was prevailed upon by Sir James Mackay (now Lord Inchcape), the very man who forced Government to close the Mints, to take the silver from the banks. The Government proposed to the Secretary of State that they be allowed to sell the silver even at a loss rather than coin and add to the already redundant volume of currency. The Secretary of State having refused, the silver was coined and added to the currency. The stoppage of Council Bills in 1893-94 had temporarily accumulated a large number of rupees, in their Treasuries, a transaction which practically amounted to a contraction of currency. But the Government later decided to spend them on railway construction—a policy tantamount to an addition to currency. The resumption of Council Bills after 1894 had also the same effect, for a sale of bills involves an addition to currency. In view of the heavy cost of financing the Home Treasury by gold borrowings, the resumption of sale was a pardonable act. But what was absolutely unpardonable was the increase in the fiduciary portion of the paper-currency reserve from 8 to 10 crores,† thereby putting 2 crores of coined rupees into circulation, particularly so because the Finance Minister refused to pay any heed to its incidence on the currency policy, arguing :—

> "I am a little doubtful whether, in discussing the question of the investment of the currency reserve, we are at liberty to look at outside considerations of that kind."†

All told, the additions to the currency during the first period were negligible as compared to what took place in the second period, 1900-1908. This period was characterized by a phenomenal increase in the volume of currency poured by the Government into circulation. Speaking of the coinage of rupees

* Cf. H. M. Ross, *The Triumph of the Standard,* Calcutta, 1909, pp. 16-17.

† By Act XV of 1896.

‡ Financial Statement, 1896-97, p. 89.

during this period, Mr. Keynes, anything but an unfriendly critic of the Government's policy observed* :—

> "The coinage of rupees recommenced on a significant scale in 1900 a steady annual demand for fresh coinage (low in 1901-2, high in 1903-4, but at no time abnormal), and the Mints were able to meet it with time to spare, though there was some slight difficulty in 1903-4. In 1905-6 the demand quickened, and from July 1905 it quite outstripped the new supplies arising from the mintage of the uncoined silver...... This slight scare, however, was more than sufficient to make the Government lose their heads. Having once started on a career of furious coinage, they continued to do so with little regard to considerations of ordinary prudence...... without waiting to see how the busy seasons of 1906-7 would turn out, they coined heavily throughout the summer months...... During the summer of 1907, as in the summer of 1906, they continued to coin without waiting until the prosperity of the season 1907-8 was assured."

Evidently, in this period the Government framed their policy "as though a community consumed currency with the same steady appetite with which some communities consume beer." The period also witnessed a material expansion of the paper currency. Up to 1903 the use of the currency notes was limited by reason of the fact that they were not only legal tender outside their circle of issue, but also because their encashability was restricted to the offices of the circles of their issue. This was a serious limitation on the extension of paper currency in India. by Act VI of 1903 the Rs. 5 was made universal in British India excepting Burma, i.e. was made legal tender in all circles, and also encashable at all offices of issue. Along with this the fiduciary portion of the paper-currency reserve was increased to Rs. 12 crores by Act III of 1905. The first event was only calculated to enlarge the circulation of the notes, but the second event had the direct effect of lowering the value of the rupee currency.

The third period (1909-14) was comparatively a moderate but by no means a slack period from the standpoint of currency expansion in India. The first three years of the period were, so to say, years of subdued emotion with regard to the rupee coinage. With the exception of the year 1910, when there was no net addition to rupee coinage, and 1911, when the addition

*Op. cit., pp. 131-35.

was a small one, the coinage in the years 1909 and 1912 ranged from 24 to 30 lakhs. But during the last two years of this period there was a sudden burst of rupee coinage, when the total reached 26½ crores. The expansion of paper currency took place also on a great scale during this period. In 1909 the Rs. 5 were universalized in Burma as they had previously been in other parts of India. This process of universalization was carried further during this period, when, under the authority granted by the Paper Currency Act (II of 1910), the Government universalized notes of Rs. 5 and Rs. 50 in 1910, of Rs. 100 in 1911. Along with the stimulus thus given to the increase of paper currency, the Government actually expanded the fiduciary portion of the issue from 12 to 14 crores by Act VII of 1911, thereby throwing into circulation 2 crores of additional rupees.

During the fourth period (1915-1920) all prudential restraints were thrown overboard.* The period coincided with the Great War, which created a great demand for Indian produce and also imposed upon the Government the necessity for meeting large expenditure on behalf of H. M. Government. Both these events necessitated a great increase in the current means of purchase. There were three sources open to the Government to provide for the need: (1) importation of gold; (2) increase of rupee coinage ; and (3) increase of paper currency. It must not be supposed that the Government of India had no adequate means to provide the necessary currency. Whatever expenditure the Government of India incurred in India, the Secretary of State was reimbursed in London. So the means were ample. The difficulty was that of converting them to proper account. Ordinarily, the Secretary of State purchases silver out of the gold at his command to be coined in India into rupees. This usual mode was followed for the first two years of the period, and the currency was augmented by that means. But the rise in the price of silver made that resource less available. The Secretary of State had therefore to choose between sending out gold or issuing paper. Of the two, the former was deemed to be too unpatriotic. Indeed, the Secretary of State believed that from an Imperial point of view it was entirely ungracious even to "earmark" the gold he received in London as belonging to India. But how was demand for additional currency in India to be met ? As a result of deliberation it was agreed that to provide currency in India without employing gold the best plan

* For a view of the currency policy of this period the primary source are the Annual Financial Statements, for these years, of the Government of India.

was for the Secretary of State to invest at one end the gold he received on India's behalf in the purchase of British Treasury bills, and the Indian Government to issue currency notes at the other end on the security of these bills. Such a procedure, it will be observed, involved a profound modification in the basic theory of Indian paper currency. That theory was to increase the fiduciary issue by investing a portion of the metallic reserves only when the proportion of the latter to the total of the notes in active circulation had shown, over a considerable period, a position sufficiently strong to warrant an extension of the invested reserves and a corresponding diminution of the metallic reserves. The main effect of the principle was that the extent of the paper currency was strictly governed by the habits of the people, for whatever the amount of fiduciary issue at any given moment it represented metallic reserves which were once in existence. Under the new scheme the old principle was abandoned and paper currency was issued without any metallic backing, and what is more important is that its magnitude instead of being determined by the habits of the people, was determined by the necessity of the Government and the amount of security it possessed. This fatal and facile procedure was adopted by the Government of India with such avidity that within four years it passed one after another eight Acts, increasing the volume of notes issuable against securities. The following table gives the changes in the limits fixed by the Acts and the total issues actually made under them :—

TABLE XLIII

Issue of Currency Notes

Acts prescribing the Fiduciary Issue of Currency Notes								
I. Limits to fiduciary issues.		Act V of 1915	Act IX of 1916	Act XI of 1917	Act XIX of 1917	Act VI of 1918	Act II of 1919	Act XXVI 1919
		In Lakhs o Rupees:						
(a) Permanent ...		14,00	14,00	14,00	14,00	14,00	14,00	14,00
(b) Temporary ...		6,00	12,00	36,00	48,00	72,00	86,00	106,00
Total limit ...		20,00	26,00	50,00	62,00	86,00	100,00	120,00
II. Total issues of currency notes		61.63	67.73	86,38		99,79	153,46	179,67*
	Silver	32,34	23,57	19,22		10,79	37,39	47,44
	Gold	15,29	24,16	18,67		27,52	17,49	32,70
III. Reserve	Securities	14,00	20,00	48,49		61,48	98,58	99,53

* On November 30, 1919. The rest of the figures are for march 31

But this facile procedure could not be carried on *ad infinitum* except by jeopardizing the convertibility of the notes. Consequently the very increase of paper money, added to the increased demand for currency, compelled the Government to go in for the provision of metallic money for providing current means of purchase and also give a backing to the watered paper issues. The rising price of silver naturally made the Government go in for gold. An Ordinance was issued on June 29, 1917, requiring all gold imported into India to be sold to Government at a price based on the sterling exchange, and opened a gold Mint at Bombay for the coinage of it into mohurs*. Frantic efforts were made to acquire gold from various quarters. The removal of the embargo on the export of gold by the U.S.A. on June 9, 1917, and the freeing of the market for South African and Australian gold, enabled the Government to obtain some supply of that metal. From July 18, 1919, immediate telegraphic transfers on India were offered against deposit at the Ottawa Mint in Canada of gold coin or bullion at a rate corresponding to the prevailing exchange rate, and at New York at competitive tenders from August 22, 1919. Arrangements were also made for the direct purchase of gold in London and U.S.A. Finally, to encourage the private import of gold, the acquisition rate was altered from September 15, 1919, so as to make allowance for the depreciation of the sterling. But the gold thus obtained was a negligible quantity. Besides, the issue of gold did not serve the purpose the Government had in mind—namely its retention in circulation. In the nature of things it was impossible. The rupee was depreciated in terms of gold to an enormous extent, and consequently at the rate of exchange gold passed out of circulation as quickly as it was issued by the Government. What the Government could do was to make the use of gold and silver coins illegal for other than currency purposes and to prevent their exportation, which it did by the Notifications of June 29 and September 3, 1917. Realizing that it could not rely upon gold the Government renewed its efforts to enlarge the rupee coinage. To facilitate the purchase of that metal the import of

*Act XIV of 1918.

silver on private account into India was prohibited on September 3, 1917. This measure, however, removed only a few of the smaller competitors for the world's diminished supply of silver, and the world-demand remained so heavy that the Secretary of State was unable to obtain sufficient supply notwithstanding the great conservation effected in the use of silver by substituting nickel coinage for silver coins of subsidiary order,* and by the isue of notes of denominations as low as that of R. 1† and of R. 2-8.‡ The Government of the United States was therefore approached on the subject of releasing a portion of the silver dollars held in their reserve. The American Government consented and passed the Pittman Act, under which the Government of India acquired a substantial volume at 101½ cents per fine ounce. The total silver purchased during this period was as follows :—

TABLE XLIV

RUPEE COINAGE, 1915—20

Year	Silver purchased in Open Market, Standard Ounces.	Silver purchased from U. S. A., Standard Ounces.	Total Standard Ounces.
1915-16	8,636,000	...	...
1916-17	124,535,000	...	...
1917-18	70,923,000	...	...
1918-19	106,410,000	152,518,000	...
1919-20	14,108,000	60,875,000	...
Total	324,612,000	213,393,000	538,005,000

Now, recalling the fact that from 1900 to 1914 the Government had coined about 532 million standard ounces of silver,§ it means that the coinage of silver by Government during these five years exceeded the amount coined in the fourteen preceding years by five million ounces.

* Act IV of 1918 and XXI of 1919.

† First issued on December 1, 1917.

‡ First put into circulation on January 2, 1918.

§ Cf. the figures given by L. Abrahms in his evidence to the Currency Committee of 1919.—Mit. of Evid., Q. 37-41.

Thus the fall in the gold value of the rupee is an inevitable consequence of the exercise of the power to issue inconvertible currency in unlimited quantities. This is the fate of all inconvertible currencies known to history. But it is said that an exception must be made in the case of the rupee currency, for if the Government has the liberty of issuing it in unlimited quantities it has also resources to counteract the effects of a fall when it does occur. We must therefore turn to an examination of these resources.

The basis of the reasoning is that the rupee is a token currency, and that if the value of a token currency is maintained at par with gold by applying to it the principle of redemption into gold* it should be possible to maintain the value of the rupee at par with gold by adopting a similar mechanism. What is wanted is an adequate gold fund, and so long as the Government has it, we are assured that we need have no anxiety on the score of a possible fall in the value of the rupee. Such a fund the Government of India has, and on all the three occasions when the gold value of the rupee fell below par that fund was operated upon. The process of redemption is carried on chiefly in three ways : (1) The sale of what are called reverse councils, by which the Government receives rupees in India in return for gold in London ; (2) the release of gold internally in; receipt for rupees in India ; and (3) the stoppage of the Secretary of State's council bills to prevent further rupees from going into circulation. The cumulative effect of these, it is said, is to contract the currency and raise its value to par. Although all the three may be employed, the first is by far the most important means adopted by the Government in carrying through this process of redemption. The extent of the redemption effected on the three occasions when it was employed may be seen from the three following tables :—

* *See* the very interesting discussion by Laughlin of the laws of token money in his *Principles of Money,* Chap. XV. It may be said in passing that Laughlin is an opponent of the quantity theory of money, but in his discussion of token money he virtually admits it.

I. Redemption of Currency, 1907-8

TABLE XLV

Date			By the sale of Reverse Councils		By Release of Gold-Diminution of Govt. Stock of Gold during the Month.	Private Export of Gold Coin during the Month.	Drawings of the Secretary of State.
			Amount offered	Amount sold			
			£	£	£	£	£
1907—							
September		...	...	...	152,000	14	858,896
October		...	...	...	254,000	9,109	921,678
November		...	...	...	532,000	3	427,344
December		...	...	...	338,000	2,501	571,905
1908—							
March	26	...	500,000	70,000	226,000	...	172,669 (for the whole month)
April	2	...	500,000	449,000			
”	9	...	500,000	340,000			
”	16	...	500,000	441,000	461,000	...	66,834
”	23	...	500,000	329,000			
”	30	...	500,000	205,000			
May	7	...	500,000	81,000			
”	14	...	500,000	145,000	645,000	...	62,764
”	21	...	820,000	793,000			
”	28	...	500,000	500,000			
June	4	...	1,000,000	755,000			
”	11	...	1,000,000	70,000	334,000	...	169,810
”	18	...	500,000	Nil			
”	25	...	500,000	50,000			
July	2	...	500,000	470,000			
”	9	...	500,000	304,000			
”	16	...	500,000	500,000	16,000	...	186,847
”	23	...	1,000,000	968,000			
”	30	...	1,000,000	860,000			
Aug.	6	...	1,000,000	418,000			
”	13	...	500,000	310,000	354,000	...	262,217
”	20	...	500,000	Nil			
”	27	...	500,000	Nil			
Sept.	3	...	500,000	Nil	502,000	...	1,431,012
”	10	...	500,000	Nil			
Total		...	15,320,000	8,058,000	4,394,000	249,942	

II. Redemption in 1914-16

TABLE XLVI

Date				Reverse Councils (in £ 000)	Drawings of the S. of S. (in Lakhs of Rs.)
1914.	April	...	...	Nil	270
	May	...	...	”	61
	June	...	...	”	68
	July	...	...	”	66
	August	...	...	2,778	72
	September	...	...	1,515	25
	October	...	...	1,895	41
	November	...	...	1,044	32
	December	...	...	1,250	30
1915.	January	...	...	225	29
	February	...	...	Nil	181
	March	Total	...	”	287
				8,707	1,162
1915.	April	...	...	Nil	1,53
	May	...	...	”	1,03
	June	...	...	651	17
	July	...	...	3,377	8
	August	...	...	815	23
	September	...	...	50	2,17
	October	...	...	Nil	2,25
	November	...	...	”	2,02
	December	...	...	”	3,28
1916.	January	...	...	”	5,26
	February	...	...	”	6,02
	March		Total	”	6,33
			...	4,893	30,37

III. Redemption in 1920

TABLE XLVII

Sale of Reverse Councils (Figures in Thousands of Pounds)

Date of sale.			Amount offered at each Sale.	Amount applied for at each Sale.	Amount sold at each Sale.	Progressive Total of Amount sold.
1920.	January 2	...	1,000	770	770	770
	" 8	...	1,000	8,499	990	1,760
	" 15	...	2,000	300	300	2,060
	" 22	...	2,000	4,890	2,000	4,060
	" 29	...	2,000	1,334	5,000	5,394
	February 5	...	2,000	32,390	2,000	7,394
	" 12	...	2,000	41,312	2,000	12,394
	" 19	...	2,000	122,335	2,000	14,394
	" 26	...	2,000	78,417	2,000	16,394
	March 3	...	2,000	64,931	2,000	18,394
	" 11	...	2,000	117,185	2,000	20,394
	" 18	...	2,000	153,559	2,000	22,394
	" 25	...	2,000	56,295	2,000	24,394
	" 31 } April 1 }	... ...	2,000	35,050	1,988	26,382
	" 8	...	2,000	16,721	2,000	28,382
	" 15	...	2,000	48,270	2,000	30,382
	" 22	...	2,000	59,020	2,000	32,382
	" 29	...	1,000	53,210	1,000	33,382
	May 6	...	1,000	89,514	1,000	34,382
	" 13	...	1,000	101,625	1,000	35,382
	" 20	...	1,000	122,279	1,000	36,382
	" 26	...	1,000	85,620	1,000	37,382
	June 3	...	1,000	101,821	1,000	38,382
	" 10	...	1,000	109,245	1,000	39,382
	" 15	...	1,000	122,991	1,000	40,382
	" 24	...	1,000	73,391	1,000	41,382
	July 1	...	1,000	106,751	1,000	42,382
	" 8	...	1,000	63,690	1,000	43,382
	" 15	...	1,000	101,830	1,000	44,382
	" 22	...	1,000	103,960	1,000	45,382
	" 29	...	1,000	75,486	1,000	46,382
	August 5	...	1,000	101,260	1,000	47,382
	" 12	...	1,000	112,230	1,000	48,382
	" 19	...	1,000	114,767	1,000	49,382
	" 26	...	1,000	117,390	1,000	50,382
	Sept. 2	...	1,000	126,425	1,000	51,382
	" 7	...	1,000	117,200	1,000	52,382
	" 13	...	1,000	115,095	1,000	53,382
	" 21	...	1,000	122,590	1,000	54,382
	" 28	...	1,000	120,050	1,000	55,382

Not only did the Government sell reverse councils on a large scale, but it also sold gold for rupees for internal circulation a thing which it seldom did before.

III. Redemption in 1920

TABLE XLVIII

Sale of Gold

No. of Sale	Date of Sale	Minimum Rate of accepted Tenders			Average Rate of accepted Tenders			Quantity sold (in Tolas)	Price of Country Bar Gold in the Bombay Bazaar		
		Rs.	A.	p.	Rs.	A.	P.		Rs.	A.	P.
1	1919. September 3	25	8	0	26	12	1	3,29,130	28	10	0
2	" 17	24	8	0	24	10	0	3,96,640	26	1	0
3	October 6	25	8	0	25	9	8	3,26,000	27	0	0
4	" 20	26	15	3	27	0	2	3,34,000	28	0	0
5	November 3	27	14	6	27	15	6	3,25,000	28	5	0
6	" 17	26	15	0	27	0	11	5,18,500	28	2	0
7	December 8	26	0	6	26	4	6	10,00,650	27	10	0
8	1920. January 5	26	4	3	26	7	9	7,63,300	27	3	0
g	" 19	26	13	3	26	14	7	8,00,000	27	5	0
10	February 5	25	2	3	25	9	7	7,56,450	25	6	0
11	" 19	16	2	3	21	9	1	9,60,590	23	4	0
12	March 3	18	8	0	18	12	4	12,96,125	21	7	0
13	" 17	21	6	0	21	7	7	12,53,325	22	13	0
14	April 7	22	7	3	22	9	4	12,46,200	24	0	0
15	" 21	23	7	4	23	8	6	10,68,175	24	4	0
16	May 5	20	13	3	21	3	2	11,96,750	21	8	0
17	" 19	21	0	3	21	1	7	12,46,050	21	12	0
18	June 9	21	8	9	21	9	8	11,32,350	22	2	6
19	" 23	20	14	10	21	0	5	12,25,250	21	8	0
20	July 7	21	1	4	22	2	2	12,81,500	21	6	0
21	" 21	22	0	1	22	0	11	12,42,000	22	5	0
22	August 4	22	5	6	22	6	3	12,78,950	22	7	0
23	" 19	23	9	4	23	10	2	5,54,500	23	7	0
24	September 1	22	8	3	22	10	8	8,27,700	23	1	6
25	" 14	23	9	4	23	12	11	2,30,500	23	8	0
					Total			2,15,89,635			

During 1920 no council bills were drawn by the Secretary of State on the Government of India.

The success of this mechanism on the two previous occasions had strengthened the belief that it had the virtue of restoring the value of the rupee. But the failure of this mechanism in the crisis of 1920 compels one to adopt an attitude of reserve towards its general efficacy. It cannot be said that exchange gave way because this mechanism was not brought into operation. On the other hand, the view of the Government regarding the sale of reverse councils in 1920 had undergone a profound modification as compared with the view it held during the crisis of 1907-8. In that crisis the Government behaved like a miser, sitting tight on its gold reserve and refusing to use it for the *very* purpose which it was designed to serve. An Accountant-General had "to go on his knees" to persuade the Government of India to, release its gold.* It was probably because it was rebuked by the Chamberlain Commission for failing to make use of its gold reserve in 1907 that in the crisis of 1920 the policy of selling reverse councils was so boldly conceived. There was a great deal of ignorant criticism of that policy from the general public that it was an "organized loot." But the Finance Minister was undaunted, and argued†:—

> "It is an essential feature of our exchange policy... that we should not only provide for remittances from London to India through council bills at approximately gold point, but from India to London in time of exchange weakness also at gold point, through the sale of sterling remittance known as reverse councils. It is simply an alternative to the export of gold. This is no new matter—we have been selling reverse councils for years...... and unless we do so the exchange policy does not become effective...... This is the reason, and the only reason, why we have sold reverse councils...... It is an effort in fact to maintain exchange as near as posssible to the gold point.... What would be the consequence if we yielded to the pressure placed on us and ceased to sell reverse councils at all ? I can understand a demand that reverse councils should be sold by some different method, or at rates different from those at present in force, but I must confess that I cannot understand the demand that the facilities

* Evidence of Mr. F. C Harrison before the Chamberlain Commission, Q. 10,209.

† Speech on the resolution *re* "Reverse Councils," March 10, 1920. *S.L.C.P.* Vol. LVIII p. 1291.

for the exchange of rupees into external currency should be entirely withdrawn. I see that in Bombay it is urged that we should let exchange find its 'natural level.' That is a catchword which does not impress me. Used in the sense in which that phrase has been recently used, there is no such thing as a 'natural level' in exchange, for, when one translates the internal currency into another currency, there must be some sort of common denominator to which both currencies can be brought; it may be gold, it may be silver, it may be sterling or it may be Spanish pesetas, which we take as our basis. The rupee must be linked on to *something** and if it is so linked, then it must be at some definite rate, and this necessarily involves that we must sometimes be prepared to sell reverse councils in order to maintain that rate. If reverse councils be withdrawn entirely, then we should have neither a gold standard, nor a gold-exchange standard, nor any kind of standard at all."

But that only raises the question: If the sale of reverse councils is efficacious in righting the exchange, why was its effect such a disastrous failure ? The Finance Minister answered the point tersely and cogently when he said :—

"If we have failed in narrowing the gap between the market price and the theoretical gold part of the rupee...... it is not because we have sold too many reverse councils ; it is because we have sold too few. I put it to any member of the commercial community here, and I put it without fear of contradiction, that if our resources had enabled us...... to sell straight away 20, 30, or 40 millions of reverse councils, we should probably have had no gap between the market price of the rupee and the theoretical gold price of the rupee at all. One of our difficulties has been, hot that we have sold too many reverse councils, but that we have been obliged to sell too few."†

* By Ordinance III of June 21,1920, the gold coins referred to in Section 11 of the Indian Coinage Act (III of 1906) ceased to be legal tender in payment or on account, but provision was made for their acceptance by Government at the ratio of Rs. 15 during a moratorium of twenty-one days. This Ordinance continued till September 9, 1920, when by Act XXXVI of 1920 the sovereign was again made legal tender. During this period gold had no legal status in India.

† *Ibid., p.* 1301.

There would have been some force in this argument if the smount of reverse bills sold were "too few." Not 20, 30, or 40 millions, but 55½ millions of reverse councils were sold, besides the large issue of gold internally, and the complete stoppage of council bills, and yet the rupee did not rise above 1s. 4d. sterling, let alone reaching 2s. gold. Why did not the sale of reverse councils suffice to rectify the exchange ? This leads us to examine the whole question of the efficacy of this redemption.

It is necessary to premise at the outset that redemption may result in mere substitution of one form of currency by another, or it may result in the retirement of currency. In so far as it results in substitution it is of no consequence at all, for substitution of currency is not a shrinkage of currency.* To the restoration of the value of a currency what is essential is its shrinkage, i.e. its retirement, cancellation. The important question with regard to this mechanism is not to what extent the currency can be redeemed, but to what extent it can be retired. In the prevalent view of this question it seems to be accepted without question that this extent is determined by the magnitude of the gold resources of the Government of India and the Secretary of State. Let us first make it clear how these gold resources are located and distributed. It will be recalled that these gold resources are distributed between (1) the paper-currency reserve, (2) the gold-standard reserve, and (3) the cash balances of the Secretary of State. It has been the habit to speak of these resources as being three "lines of defence" on which the Government can safely rely when an exchange crisis takes place. But are they ? They can be, for the purposes of retirement, only if they were all "free" resources; in other words, if they were not appropriated resources. To what extent are they unappropriated ? Can the Secretary of State take gold from the paper-currency reserve ? He can, but then he must replace it by something else, or must cancel notes to that extent. Can the Secretary of State take gold out of his cash balances ? He can, but then he must either borrow to fill his Treasury or draw upon the Government of India if there is anyone to buy his bills, which is tantamount to issuing rupee currency. The gold in the paper-currency reserve and that in the cash balances is of no use at all, for it does not permit of the cancellation of the rupee

* The most notable example is that of Americal greenbacks. Under the law of 1875 they were by 1879 retired in sufficient numbers to restore parity with gold. But by a counter-law of 1878, 347,000,000 of them have been kept in circulation. As soon as redeemed, they must be reissued ; they cannot be retired.

currency, which is what is wanted in restoring its value when it suffers a fall. It is therefore sheer nonsense to speak of the effectiveness of redemption as being commensurate with the gold resources of the Secretary of State. The matter is important, and an illustration may not be out of place. Suppose A, a holder of rupees, wants to get gold for them. He can go to three counters; (1) that of the controller in charge of cash balances ; (2) that of the controller of currency in charge of the paper-currency reserve ; or (3) that of the custodian of the gold-standard reserve. If A goes to the first, what is the result ? The cash balance is *pro tanto* reduced. On the assumption that the cash balance is at its minimum, as it should be, the controller must reimburse himself immediately to maintain his solvency by drawing a bill on India and thereby releasing rupees received for gold again in circulation, so that in this case there is no shrinkage of currency. If A goes to the controller of currency, what happens ? The controller gives him gold, but on the assumption that the paper-currency account is a separate statutory account he must put the rupees received from A in place of the gold issued from his reserve, so that here again what happens is that the composition of the reserve undergoes a change, but the total paper currency remains the same. It must therefore be borne in mind that to the extent the gold in the paper-currency reserve and the cash balances are operated upon the result is not a retirement of currency. To speak of them as "lines of defences," as is so often done, is to overlook the fact that these two are not free resources but are appropriated resources.

What is, then, the resource left to the Government to *retire* the rupee currency ? Only the gold-standard reserve. That is the only reserve the amount of which is unappropriated for any particular use. It is free cash, and only to that extent is it possible for the Government to restore the rupee currency when a fall in its gold value eventuates. Of course it is important to bear in mind that this is the extent to which it can retire the currency. Not that it will, for it may not, and there is no want of cases in which it has not. Two instances will suffice. During the first period of the Mint closure, 1893-98, it will be recalled how a large number of rupees had accumulated in the hands of the Government, and in the interest of raising the value of the rupee they should have been locked away. Instead the Government of India released that money in circulation in extending railways and other public works, as though the spending of rupees by itself producedd an effect different to what would have been produced had they been spent by the public. Similarly irresponsible conduct marked the sale of reverse councils in 1920. To meet these reverse councils the Secretary of State took the gold from the paper-currency reserve. But instead of cancelling notes to the extent of the gold that was taken out of the reserve, the Government took powers under an Act XXI of 1920 to fill the gap by manufacturing securities *ad hoc,* so that although there was redemption there was no retirement, and so much gold was merely wasted, for it produced no effect on prices or the exchange. This Act, passed in March, 1920, was of temporary duration, and would have obliged the Government to retire the currency by October, 1920, when it was to expire. Rather than do this the Government altered the paper-currency law, not temporarily but permanently (Act XLV of 1920), changing the provisions in such a manner as to require the Government to cancel the currency to the smallest degree possible by retiring their "created securities." Even this was not done, owing to deficits in the Government Budget.

But even if such indiscretions were not repeated the fact remains that Government cannot effect a greater retirement than is permitted by the gold-standard reserve. If that reserve fails Government has only two resources left: (1) to melt down the rupees and sell them as bullion for gold and to go on further contracting the currency, in this way till its value is restored : or (2) to borrow gold. Both these are evidently costly methods. To sell rupees as bullion is bound to result in loss unless the bullion in the rupee fetched more at the time of sale than what it cost when it was purchased for manufacturing it into bullion. The second process, that of borrowing, cannot be lightly resorted to for the purpose of creating a reserve fund to retire the currency. Indeed, so costly are such methods, and so complete would be the proof they would afford of the instability of the exchange standard if they were resorted to, that Government has never contemplated them as possible lines of defence in an exchange crisis. It seems certain, however, that Government does recognise that the gold-standard reserve by itself cannot suffice for the imaintenance of exchange. For we find that from the year 1907-8 dates a complete change in the distribution of Government balances between London and India. Up to that period it was the policy of the Secretary of State to draw only as much as necessary to finance his Home Treasury. After that date the practice was originated of drawing as much as the Government of India could provide, and as the Government of India has been supreme in financial matters it provided large sums for council drawings by increased taxation and budgeting for surpluses. The effect of this was to swell the cash balances of the Secretary of State.* No official explanation of a satisfactory character has ever been given for this novel way of financing the Home Treasury† but we shall not be very) far wrong if we say that the object in accumulating these balances is to provide a second gold reserve to supplement the true gold-standard reserve. Whatever strength the Government may derive for the time being from this adventitious resource, it is obvious that it cannot be permanent. Under a more popular control of Government finances the cash balances will have to be kept down to a minimum necessary to work the Treasury, and the gold-standard reserve will be the only reserve on which the Government will have to depend.

The gold-standard reserve is to the rupee what the paper-currency reserve is to the notes. The purport of both is to prevent the respective currencies they support from falling or going to discount. But the treatment accorded by the Government to the rupee and the paper in respect of reserve shows a remarkable degree of contrast. In the case of the paper, as has been previously noted, the reserve is a statutory reserve, and even when the whole basis of Indian paper currency has been changed the provisions as to reserve are none the less strict and cannot be disregarded by the Government without infringing the law. Now, the rupee is nothing but a note printed on silver.‡ As such, the provisions as to reserve should be analogous to those governing the paper currency. Strange as it may seem, any regulation is conspicuous by its absence in regard to the gold-standard reserve.§ Not only is it not obligatory on the

* For figures, *see* Chap. VII.

† Cf. Memorandum on India Office Balances, Cd. 6619 of 1913.

‡ “We have virtually relegated our rupee currency to the position of a token currency, and we are now practically in the position of bankers who have issued a certain amount of fiduciary currency (whether paper or metal is immaterial), and to maintain the value of this fiduciary currency we are bound to be in a position to exchange it for gold when presented to meet legitimate trade requirements,” said the Financial Statement for 1903-4, p. 14.

§The Chamberlain Commission said: “There are disadvantages in restricting the freedom of the Government in a crisis, and it is undersirable that the disposition and amount of the reserve should be stereotyped...... We therefore do not regard that the gold-standard reserve should be regulated by statute.”—Report, Sec. 101.

Government to redeem the rupee, but it does not seem that the Government is even bound to maintain the reserve. And that it has maintained such a reserve is no guarantee that it will replace it supposing that the reserve was dissipated.* Such differences apart, is the gold-standard reserve an adequate reserve ? Figures of the magnitude of the gold-standard reserve, as usually given in official publications, are a meaningless array. What is the use of displaying assets without at the same time exhibiting the liabilities ? To be able to judge of the adequacy of that reserve we must know what is the total circulation of rupees. When, however, we compare the circulation of the rupees with the reserve, the proportion between the two is not sufficiently large so as to inspire confidence in the stability of the system (see Table XLIX).

How can a reserve so small as this carry through the process of retirement to any sufficient extent ? That it will not always do it the crisis of 1920 gives abundant proof. But the supporters of the exchange standard maintain that the smallness of the reserve is a matter of no consequence, for the reserve is kept only for the purpose of foreign remittances. That being the case, it is said the reserve need not be large. Granting that it is so, what must govern the magnitude of the reserve in order that it may prove adequate in any and every case ? The only attempt made to enunciate a rule of guidance is that by Prof. Keynes. That rule he finds† in the possible variations in the balance of trade of India.. Now, does this make the problem of regulating the reserve more definite ? As has been explained previously, the adverse balance of trade would be due to the depreciation of the currency, so that Mr. Keynes's statement amounts to this, that the reserve should vary with the depth of the depreciation. But how is a Government to do this ? Only by adverting to the movement of the price level. But in all its currency management the Government of India never pays any attention to the price

* In the course of his speech on the Indian Paper Currency (Temporary Amendment) Bill, dated March 17, 1920, the Finance Minister observed :"...... from a practical point of view, it is desirable to leave the gold-standard reserve until the paper-currency reserve has been re-transferred, in case... the Secretary of State finds it impossible to keep himself in funds by Councils for his heavy home liabilities. He will then be able to use the gold-standard reserve, and we can credit the gold-standard reserve out here. There is a third point, and I think a conclusive one. When you operate against the paper-currency reserve you have to operate within the paper-currency reserve ; when you operate against the gold-standard reserve it disappears ; it melts, and we are under no obligation to replace it; whereas we are under a statutory obligation to replace the paper-currency reserve."—*S.LC.P.* Vol. LVIII, p. 1416.

† Op. cit., pp. 166-7.

TABLE XLIX

DISTRIBUTION OF THE GOLD-STANDARD RESERVE AND ITS PROPORTION TO RUPEE CIRCULATION (IN THOUSANDS OF POUNDS STERLING)

	In England.					In India							
March 31 in each Year.	Purchase Value of Sterling Securities.	Cash at Short Notice.	Temporary Loan to the Home Treasury.	Gold deposited at the Bank of England.	Total.	Coined Rupees in India.	Outstanding Debt Treasury balances.	Temporary Loan to Treasury Balances.	Gold.	Total.	Total Reserve, England and India.	Volume of Rs. in Circulation in Crores.	Percentage of Reserve to Ra. in Circulation (£ = Rs. 15)*
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
1901	—	—	—	—	—	—	1,831	—	1,200	3,031	3,031	143	3.1
02	3,454	—	—	—	3,454	—	—	—	—	—	3,454	138	3.7
03	3,810	—	—	—	3,810	—	1	—	—	1	3,811	136	3.4
04	6,377	—	—	—	6,377	—	167	—	—	167	6,544	144	6.8
05	8,377	—	—	—	8,377	—	152	—	—	152	8,529	152	8.4
06	12,165	—	—	—	12,165	—	287	—	—	287	12,452	164	10.7
07	12,519	—	—	—	12,519	4,000	301	—	22	4,323	16,842	178	10.6
08	13,187	—	1,131	—	14,318	4,000	—	—	—	4,000	18,318	191	11.2
09	7,414	—	470	—	7,884	10,587	—	—	—	10,587	18,471	187	7.1
10	13,219	3,011	—	—	16,230	2,534	—	—	—	2,534	18,764	186	13.8
11	15,849	1,477	—	—	17,326	1,934	—	—	—	1,934	19,260	184	14.8
12	16,748	1,074	—	—	17,822	1,934	—	—	—	1,934	19,956	182	14.9
13	15,946	1,006	—	1,620	18,572	4,000	35	—	—	4,035	22,607	191	14.8
14	17,165	25	—	4,320	21,510	4,000	22	—	—	4,022	25,532	187	17.2
15	12,149	8	—	1,250	13,407	—	70	7,000	5,238	13,308	25,715	204	18.9
16	16,219	5,792	—	—	22,011	—	1	4,000	239	4,240	26,251	212	15.7
17	25,406	6,001	—	—	31,407	—	—	—	103	103	31,510	227	20.8
18	28,453	6,000	—	—	34,453	—	—	—	—	—	34,453	219	23.5
19	29,729	6,016	—	—	35,745	—	—	—	—	—	35,745	228	23.5

* In striking the proportion the rupee portion of the reserve has been omitted.

problem. Indeed, as was pointed out above, its conception of the underlying causes of the fall of exchange is totally at variance with the only true conception, nothing but a firm grasp of which can enable it to avert a crisis. Being ignorant of the true conception it blindly goes on issuing currency until there occurs what is called an adverse balance of trade. All it aims at is to maintain a gold reserve, and so long as it has that reserve it does not stop to think how much currency it issues. The proportion of the issues and the reserve not being correlated the stability of the exchange standard, in so far as it depends upon the reserve, must always remain in the region of vagueness, far too problematical to inspire confidence of the system. Nay, the liability of redemption for foreign remittances, small as it appears, may become so indefinite as entirely to jeopardize the restoration of stability to the exchange standard.

But is a gold reserve such an important thing for the maintenance of the value of a currency ? All supporters of the exchange standard must be said to be believers in that theory. But the view cannot stand a moment's criticism. To look upon a gold reserve as an efficient cause why all kinds of money remain at par with gold is a gross fallacy.* To take such a view is to invert the casual order. It is not the gold reserve which maintains the value of the circulating medium, but it is the limitation on its volume which not only suffices to maintain its own value, but also makes possible the accumulation and retention of whatever gold reserve there is in the country. Remove the limit on the volume of currency, and not only will it fail to maintain its value, but will prevent the accumulation of any gold reserve whatever. So little indeed is the importance of a gold reserve to the cause of the preservation of the value of currency that provided there is a rigid limit on its issue the gold reserve may be entirely done away with without impairing in the least the value of the currency. The Chamberlain Commission recommended that the Government of India should accumulate a reserve to maintain the value of the rupee because it was by means of their reserves that European banks maintained the value of their currencies. Nothing can be a greater perversion of the truth. What the European banks did

* Cf. in this connection the brilliant paper by F. A. Fetter, "The Gold Reserve: its Function and its Maintenance," in the *Political Science Quarterly,* 1896, Vol. XI, No. 2.

was just the opposite of what the Commission recommended. Whenever their gold tended to disappear they reduced their currencies not only relatively but absolutely. It was by limitation of their currencies that they protected the value of the currencies and also their gold reserves.

The existence of a reserve, therefore cannot lend any strength to the gold-exchange standard. On the other hand, if we inquire into the genesis of the reserve, its existence is an enormous source of weakness to that standard. For how does the Government obtain its gold-standard reserve ? Does it increase its reserve in the same way as the banks do, by reducing their issues ? Quite the contrary. So peculiar is the constitution of the Indian gold-standard reserve that in it the assets, i.e., the reserve, and the liabilities, i.e., the rupee, are dangerously concomitant. In other words, 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 increased rupee coinage. What profit the rupee coinage yields depends upon how great is the difference between the cost price of the rupee and its exchange value. Barring the minting charges, which are more or less fixed, the most important factor in the situation is the price of silver. Whether there shall be any profit to be credited to the reserve depends upon the price paid for the silver to be manufactured into rupees.*

Not only is the reserve an evil by the nature of its origin, but having regard to its documentary character the reserve cannot be said to be absolutely dependable in a time of crisis. There is no doubt that the intention of the Government in investing the reserve is to promote its increase by adding to it the interest accruing from the securities in which it is invested. The critics of the Government want a *large* and at the same time a *metallic* reserve. But they do not realize that having regard to the origin of the reserve the two demands are incompatible. If the reserve needs to be large then it must be invested. Indeed, if the reserve had not been invested it would have remained distressingly meagre.‡ But is there no danger in a reserve of this kind ?

* *See* footnote † page 552.

‡ From 1900-1 to 1920-21 the profits on coinage credited to the gold-standard reserve amounted to £ 28,573,606 only ; while during the same period Interest and Discount gave £ 13,306,847 or nearly one-half the profits on coinage, Cf. *East India: Accounts and Estimates,* 1921-22, *Cmd,* 1517 of 1921, p. 20.

† In answer to Mr. M. L Reddi Garu, the following statement was laid on the table :—

* Statement showing the average cost of silver purchased by the—

Year.		Royal Mint Average Cost for Standard Ounce.	India Office Average Cost for Standard Ounce.	Financial Year.
		d.	d.	
1893	...	$36\frac{5}{16}$	No purchase	1893-94
94	...	29¼	"	1894-95
95	...	$30\frac{3}{8}$	"	1895-96
96	...	$30\frac{5}{16}$	"	18S6-97
97	...	$27\frac{7}{8}$	"	1897-98
98	...	27¼	"	1898-99
99	...	27½	28	1899-1900
1900	...	28¼	29	1900-01
01	...	$27\ \frac{15}{16}$	No purchase	1901-02
02	...	$24\frac{5}{16}$	22.80	1902-03
03	...	$23\frac{11}{16}$	27.19	1903-04
04	...	26 ½	27.14	1904-05
05	...	$27\frac{7}{16}$	29.74	1905-06
06	...	$31\frac{1}{16}$	31.59	1906-07
07	...	$30\frac{9}{16}$	31.27	1907-08
08	...	$24\ \frac{7}{16}$	No purchase	1908-09
09	...	$23\frac{11}{16}$	"	1909-10
10	...	$24\frac{7}{8}$	"	1910-11
11	...	$24\frac{13}{16}$	"	1911-12
12	...	$27\frac{15}{16}$	28.71	1912-1,3
13	...	$28\frac{1}{16}$	28.71	1913-14
14	...	$24\frac{5}{8}$	No purchase	1914-15
15	...	24¼	33.96	1915-16
16	...	$30\frac{5}{8}$	33.96	1916-17
17	...	$39\frac{15}{16}$	42.78	1917-18
18	...	$47\frac{15}{16}$	48.20	1918-19
19	...	$49\frac{5}{8}$	52.04	1919-20
20	...	$50\frac{7}{8}$	Silver purchased at special rates from the Baldwin mines and the Perth mint.	920-21

* *Legislative Assembly Debates,* Vol. II, No. 3. September, 10, 1921, p. 181.

In the absence of information whether the price is F.O.B. or C.I.F. it is difficult to say that the Secretary of State has had to pay higher prices for silver than were paid by the Master of the Royal Mint.

The source of a danger in a reserve such as this was well pointed out by Jevons when he said*:

> "...... good government funds and good bills can always be sold at some price so that a banking firm with a strong reserve of this kind might always maintain their solvency. But the remedy might be worse for the community than the disease, and the forced sale of the reserve might create such a disturbance in the money market as would do more harm than the suspension of payment......"

In the same manner, who can say that all the increase of reserve from interest will not be wiped out by a slump in the value of the securities if put upon the market for conversion into gold at a time when there takes place an exchange crisis ? Supposing, however, the full value of the securities, is realized, the number of rupees the reserve will "sink" when occasion for redemption arrives depends upon what is the price at which the rupees are bought back. If the fall of the rupee is small, it may help to retire a large volume of currency and thus restore its value. On the other hand, if the fall is great, it will suffice to retire only a small part of the currency and may fail to restore its value as it did in 1920, so that what may appear to be a big reserve may turn out to be very inadequate. But, apart from considerations of the relative magnitude of the reserve that can be built up, the point that seems to have been entirely overlooked is *that the process of building up the reserves directly involves the process of augmenting the currency*. The Chamberlain Commission was cognizant of the fact that the gold-standard reserve could not be built up except by coining rupees. Indeed, it cautioned those desirous of a gold currency to remember that if gold took the place of "new rupees which it would be necessary otherwise to mint, the effect is to diminish the strength of the gold-standard reserve by the amount of the profit which would have been made from new coinage."† Rather than recommend a policy which "would bring to an end the natural growth of the gold-standard reserve," the Committee permitted the Government to coin rupees. But is there no danger involved in such a reserve ? What is the use of a reserve which creates the very evil which it is supposed afterwards to mitigate ? Indeed, those who have been agitating for an increase in the Indian gold-standard reserve cannot be said to have been alive to the dangers involved in the existence of such a reserve.

* *Money,* p. 227.

† Report, par. 63.

The smaller the gold-standard reserve the better it would be, for there would be no inflation, no fall in the purchasing power of the rupee, and no necessity for its retirement.

Having regard to its origin, the gold-standard reserve, instead of acting as a brake upon reckless issue of rupee currency, is the direct cause of it and tends to aggravate the effects of an inconvertible currency rather than counteract them. Perversity cannot go further. If the fact that a mechanism like that of the gold-standard reserve, set up for the purpose of limiting the currency, cannot be made to function without adding to the currency, does not render the system an unsound currency, one begins to wonder what would. Great names have been invoked in support of the exchange standard. After trying hard to find authoritative precedents for his plan,* Mr. Lindsay claimed before the Fowler Committee that it was founded upon the Report of the Parliamentary Committee on Irish Exchange.† There he was on firm ground. Among other things, the Committee did recommend that for stabilizing the exchange between England and Ireland the Bank of Ireland should open credit at the Bank of England and sell drafts on London at a fixed price. In so far as the exchange standard rests on gold reserve in London, Lindsay must be said to have faithfully copied the plan of the Irish Committee on exchange. But he totally

* In 1876, when Mr. Lindsay first set out his scheme in the pages of his *Calcutta Review,* he mentions no parallel at all. in 1892, in his *Ricardo's Exchange Remedy,* he uttered the name of Ricardo as an authority for his plan, but in 1898 he shifted his ground, so much so that he blamed (*Economic journal, supra*) Probyn for taking Ricardo's gold bar plan as a basis. The reason why he disavowed Ricardo as his authority most probably lies in the fact that Ricardo's general views of currency were rather damaging to his position. In view of the fact that there are so many people who assert, no doubt, from the title of his *Proposals for an Economical and Secure Currency,* that Ricardo wrote against a metallic standard, it is worth while recording the following passage from his *Proposals,* in which he says : "During the late discussion on the bullion questions, it was almost justly contended that a currency, to be perfect, should be absolutely invariable in value. But it was said, too, that ours had become such a currency, by the Bank Restriction Bill; for by that bill we had wisely discarded gold and silver as the standard of our money...... Those who supported this opinion did not see that such a currency, instead of being variable, was subject to the greatest variations— that the only use of a standard is to regulate the quantity, and by the quantity the value of the currency—and that without a standard it would be exposed to all the fluctuations to which the ignorance or the interests of the issuers might subject it."

† The Report, which is a masterly document, was eclipsed by the Bullion Report, though both contain the same doctrine, by reason of its not being printed till 1826. *See* Lords Paper 48 of 1826.

neglected to give prominence to another and the most vital re commendation of the Committee, in which it is observed :* "*But all the benefits proposed by this Mode of Remedies would be of little Avail and very limited Duration if it* (i.e. Bank of Ireland) *did not promise at the same time to cure the Depreciation of Paper in Ireland by diminishing its over issue*." Indeed, so great was the stress laid on the limitation of issue that when Parnell, in his resolution in the House of Commons on the reform of the Irish currency, regretted the non-adoption of the recommendations of the Committee,† Thornton in his reply pointed out that nothing would help to stabilize Irish exchange so long as the vital condition laid down by the Committee was disregarded. The recent experience in pegging the exchanges well illustrates the importance of that vital condition. Pegging the exchange is primarily a device to prevent the external value of the currency falling along with its internal value. The way in which pegging effects this divorce is important to note.‡ The primary effect of the peg is to permit the purchases of foreign goods by procuring foreign currency for home currency at a fixed price, which is higher than would be the case if it were determined by the general purchasing power parity of the two currencies. By enabling people to buy foreign goods with foreign currency obtained at a cheaper price the peg virtually raises foreign prices more to the level of the home prices, so that if the exchange is stable it is not because there is a peg, but because the price-levels in the two countries have reached a new equilibrium. Essentially the exchange is stable because it is an artificial purchasing-power parity. Whether it will continue to be so depends upon the movements in the home prices. If the home prices rise more than the rise brought about by the peg in the foreign prices the mechanism must break. It is from this point of view that the condition laid down by the Irish Committee on exchange regarding the limitation on issue must be held as one of vital character. In omiting to advert to that condition the Indian currency contradicts what is best in that Report of the Irish Committee.

The reason why Mr. Lindsay paid no attention to the question of limitation in setting up his exchange standard is largely that, notwithstanding the great reputation he has achieved as

* Report, p. 16. Italics not in the original.

† See *Hansard Parliamentary Debates,* Vol. XIV, pp. 75-91.

‡ Cf. the succinct statement by T. E. Gregory, *Foreign Exchanges,* p. 85.

an author of a new system, he was profoundly ignorant of the true doctrine regarding the value of a currency. Neither he nor the hosts of currency-mongers who during the nineties exercised their ingenuity to devise plans for remedying Indian exchange troubles,* understood that to stabilize the exchange was essentially a problem of stabilizing the purchasing power of currency by controlling its volume.† The gold-exchange standard ignores the fact that in the long run it is the general purchasing power of a currency that will ultimately govern its exchange value. Its aim is to stabilize exchange and allow the problem of purchasing power to go hang. The true policy should be to stabilize the purchasing power of the currency and let exchange take care of itself. Had the Chamberlain Commission considered the exchange standard from this point of view it could not have called it a sound standard when in its fundamentals it was the very reverse of it.

Now any one who remains unconvinced of this weakness of the exchange standard may say that in examining its stability we have taken only those occasions on which the standard has broken down. Thinking such a treatment to be unfair, he might say: How about the years during which stability was maintained ? Is there nothing to be said in favour of a system that maintained the gold value of the rupee from 1901 to 1907, or from 1909 to 1914 ? The question is a pertinent one, and the position that underlies it is supposed to be so strong that those who hold it have asked the opponents of the exchange standard either to admit that it is a stable standard or to show that under that standard the rupee has *invariably* failed to maintain its gold value.‡

The validity of this position depends upon assumptions so plausible and so widespread that the argument urged so far against the exchange standard will not be of full effect until their futility is fully demonstrated. The first assumption is that there cannot be a depreciation of a currency unless it has depreciated in terms of gold. In other words, if the excess has not produced

* *See* Chap. IV.

† Cf. evidence of Mr. Lindsay before the Fowler Committee, Q. 4,190-95, where he asserted that exchange had nothing to do with the quantity of money in circulation.

‡ Dodwell, "A Gold Currency for India," *Economic Journal,* 1911; *Report on the Enquiry into the Rise of Prices in India, 1914, p. 94.*

a fall in the value of a currency in terms of a particular commodity such as gold, then there has been no excess at all in terms of commodities in general. Now there was a time, particularly during the discussion on the Bullion Report, when the conception of a change in the value of the currency in relation to things in general was not quite clear even to the most informed minds,* and was even pronounced invalid by high authorities.† In view of the absence of the system of index numbers, this simple faith in the summary method of ascertaining depreciation by some one typical article, gold for instance, as a measure of value, was excusable. But the same view is without any foundation to-day. No one now requires to be shown that the price of each commodity has varied to the same extent and in the same direction as prices of commodities in general before admitting that there has been a change in the value of a currency. Why assume a single commodity like gold as a measure of depreciation ? It would be allowable, although it is short-sighted to do so, if the depreciation of gold was an accurate measure of the depreciation of a currency in terms of all other commodities. But such is not the case. Commenting upon the experience of the United States with the greenbacks during the Civil War, Prof. W. C. Mitchell observes‡ :

> "The fluctuations in the price of gold which attracted so much attention were much more moderate than the extreme fluctuations in the prices of commodities. The gold quotations lay all the time well within the outer limits of the field covered by the variations of commodity prices....... During the war gold moved up or down in price more quickly than the mass of commodities...... When gold was rising in price the majority of the commodities followed, but more slowly...... When gold was falling in price the majority of commodities stood still or followed more slowly...... This more sluggish movement of commodity prices appears still more clearly after the war. Rapid as was the fall of prices it was not so rapid as the fall in gold. A more curious fact is that the price-level for

* Canning's castigation of Lord Castlereagh's definition of standard as "a sense of value" during the Bullion debates must be attributed to his ignorance on this matter.

† Ricardo, in his *Proposals for an Economical and Secure Currency* says :"It has indeed been said that we might judge of the value of a currency by its relation not to one but to the mass of the commodities...... Such a test would be of no use whatever...... To determine the value of a currency by the test proposed...... is evidently impossible."

‡ *Gold Prices and Wages under the Greenback Standard,* 1908, pp. 39-41.

commodities continued for ten years to be higher than the price-level for gold."

This shows that the test sought to be applied by the adherents of the exchange standard is a false one and gives an inaccurate reading of the value of a currency. There can be no doubt that people who have urged its application to that standard would not have pressed for it so much as they have done if they had taken proper care to distinguish between *specific* depreciation of a currency in terms of gold and its *general* depreciation in terms of commodities.* The experience of the Bank of England during the suspension period is a capital instance of the phenomenon where a currency is generally depreciated, although it showed no sign of specific depreciation :—

TABLE L

DEPRECIATION OF THE NOTES OF THE BANK OF ENGLAND†

	Percentage Values of Bank Notes in Terms of	
	(1) Gold	(2) Commodities
1797	100.0	110
1798	100.0	118
1799	...	130
1800	107.0	141
1801	109.0	153
1802	...	119
1803	...	128
1804	103.0	122
1805	103.0	136
1806	...	133
1807	...	132
1808	...	149
1809	...	161
1810	...	164
1811	123.9	147
1812	130.2	148
1813	136.4	149
1814	124.4	153
1815	118.7	132
1816	102.9	109
1817	102.2	120
1818	104.6	135

* Cf, Prof. Nicholson's *Principles of Political Economy* (1897), Vol. II, Chap. XV, §4 ; and Walker, F. A., *Money,* 1878, pp. 387-91.

† From Hawtrey's *Credit and Currency,* p. 269. On the values of the notes in terms of gold Prof. Foxwell says :" It is admitted by the severest critics of the bank that there is no substantial ground for complaint as to its conduct during the restriction until 1808-9. There does not seem, indeed, to have been any real depreciation of its paper until that date. The price of £ 4 per ounce, which figures monotonously for the years 1803-9, was really an arbitrary price, fixed by the bank itself as one at which it would purchase foreign gold." *Preface to Andreades,* p. xvi. Some people seem to doubt that there was no specific depreciation of the inconvertible notes of the Bank of England till 1810. Unfortunately data are not available to give direct evidence of the fact. But circumstantial evidence there is. It is to be remembered that the premium on gold was the only method then known of measuring depreciation and that Horner, Ricardo and others were open enemies of the Bank of England. That being the case, it does not seem probable that Horner would have waited to introduce his Resolution in the House of Commons till 1810 if the bank notes had shown signs of specific depreciation before that time.

Which kind of depreciation is the greater evil we will discuss in the next chapter. Dealing for the present with this experience of the Bank of England, we have the fact that there can be a general depreciation without a specific depreciation. In view of this, the upholders of the exchange standard have no reason to be proud of the fact that the rupee has not shown signs of specific depreciation over periods of long duration. That a bank note absolutely inconvertible and unregulated as to issue should have maintained its par for very nearly thirteen years may speak far more in favour of the suspension system than the experience of the rupee can in favour of the exchange standard. There is a greater wonder in the former than there is in the latter, for the value of the rupee is sustained, apart from the fact that gold in terms of which it was measured was itself undergoing a depreciation, as is evident from the foregoing figures of general prices in England, and by a hope in some kind of convertibility, however slight or however remote but which had no place in the case of the Bank of England notes. Yet no one is known to have admired or justified the currency system of the suspension period, although it had not given rise to a specific depreciation for a long time.

This mode of measuring depreciation in terms of gold would be, relatively speaking, a harmless idea if it was not made the basis of another assumption on which the exchange standard is made to rest, that the general and specific depreciations of a currency are unrelated phenomena. As against this it is necessary to urge that the chief lesson to be drawn from this experience of the Bank of England for the benefit of the upholders of the exchange standard consists in demonstrating that although their movements are not perfectly harmonious, yet they are essentially interrelated. That lesson may be summed up in the statement that when the general depreciation of currency has taken place the occurrence of a specific depreciation, other things being equal, is only a matter of time, if the general depreciation proceeds beyond a certain limit. What will be the interval before specific depreciation will supervene upon general depreciation depends upon a variety of circumstances. Like the surface of a rising lake, general depreciation touches different commodities at different times according as they are located in the general scheme of things as determined by the relative strength of demand for them. If there is no demand for gold for currency purposes or for industrial purposes, the depreciation of the currency in terms of gold may be delayed. It is only to make foreign remittances that the demand for gold first makes itself felt, and it is there that specific depreciation primarily arises. But there again it need not, for everything depends upon whether other commodities equally good, which the foreigner would take as readily as gold, are forthcoming or not. Now, in the case of India all these three factors tending to postpone specific depreciation are more or less operative. The rupee is a full legal-tender currency and can effectively discharge debts without compelling resort to gold. The industrial demand for gold in a poor country like India cannot be very great.* Consequently, the generally depreciated rupee does not show immediate signs of depreciation in the internal trade of the country. As for foreign payments, the position of India is equally strong, not because, as is absurdly supposed, she has a favourable balance of trade, but because she has certain *essential* commodities which a foreigner is obliged to

* The following table regarding the consumption of gold in different countries is interesting:—

§ CONSUMPTION OF GOLD (MILLIONS OF POUNDS STERLING AT 85S. PER FINE OUNCE)

	1915	1916	1917	1918	1919	1920
Industrial Arts (Europe and America).	17.0	18.0	16.0	17.0	22.0	22.0
India (year to March 31 following.	1.4	5.1	19.6	—3.3	27.7	5.1
China ...	—1.7	2.6	2.6	0.04	11.5	—3.7
Egypt ...	—0.8	—0.2	—0.1	—0.0	—0.0	?
Balance available as money (difference).	80.5	68.0	48.2	64.9	13.8	46.6
World ...	96.4	93.5	86.3	79.0	75.0	70.0

§ The figures are those of Mr. Joseph Kitchin in *The Review of Economic Statistics,* Preliminary volume 3, No. 8 for August, 1921, p. 257. If figures previous to 1914 are desired, *see* table ibid., p. 258).

Omitting the abnormal years of 1917 and 1919 and reducing the figures to *per capita* basis the *consumption* of gold by India must be said to be remarkably small. Besides, it is to be noted that figures for India include industrial as well as monetary consumption. Further, in making comparison account must be taken of the difference in the period taken as unit in the case of India and other countries. Of course in these days when gold is so very greatly depreciated in terms of commodities in general, neither is there any necessity to shed tears if its production were to fall off, nor can it be anything but a welcome event if its use were to be extended. It would therefore be unwise to resent an increase, if it were to take place, in the importation and use of gold by India. The greater the use of gold and the less the production of it, the better for the world as it is circumstanced to-day. Cf. in this connection the remarks of Prof. Cannan on Mr. Shirras's Paper in the *J.R.S.S.* for July, 1920, pp. 623-24.

accept* in place of gold. Specific depreciation of the rupee will occur chiefly when the general depreciation has overtaken the commodities that enter into India's foreign trade. That the depreciation should extend to them is inevitable, for, as is well said,†

> "in a modern community the prices of different goods constitute a completely organized system, in which the various parts are continually being adjusted to each other by intricate business process. Any marked change in the price of important goods disturbs the equilibrium of this system, and business processes at once set going a series of readjustments in the prices of other goods to restore it."

It is true that in the case of India the interconnection between production for internal trade and production for external trade is not so closely knit as in the case of other countries. The only difference that this can make in the situation is to moderate the pace of general depreciation so that it does not affect foreign trade commodities too soon. But it cannot prevent its effect from ultimately raising their price, and once their price is risen the foreigner will not accept them, however essential. A demand for gold must arise, resulting in the specific depreciation of the currency. This statement of the case agrees closely with the experience of the Bank of England and that of India as well. In the case of the Bank of England the "great evil," i.e. the specific depreciation of the bank notes, of which Horner complained so much, made its appearance in 1809, some thirteen years after the suspension was declared. Similarly, we find in the case of India specific depreciation tends to appeear at different intervals, thereby completely demonstrating that, even for the purpose of avoiding specific depreciation, it is necessary to pay attention to the general depreciation of a currency.

Having regard to these facts, supported as they are by theory as well as history, the incident that the rupee has maintained its gold value over periods of some duration need not frighten

* Evidence of Prof. Marshall, I.CC. 1898, Q. 11,793.

† Mitchell *Ibid,* p. 258.

anyone into an admission that the exchange standard is therefore a stable standard. Indeed, a recognition of that fact cannot in the least discredit what has been said above. For our position is that in the *long run* general depreciation of a currency will bring about its specific depreciation in terms of gold. That being our position, even if we are confronted with the absence of specific depreciation of the rupee, we are not driven to retract from the opinion that the best currency system is one which provides a brake on the general depreciation of the unit of account. The exchange standard provides no such controlling influence; indeed, its gold reserve, the instrument which controls the depreciation, is the direct cause of such depreciation. The absence of specific depreciation for the time being is not more than a noteworthy and an interesting incident. To read into it an evidence of the security of the exchange standard is to expose oneself, sooner a later, to the consequences that befall all those who choose to live in a fool's paradise.

●●

CHAPTER VII

A RETURN TO THE GOLD STANDARD

We have examined the exchange standard in the light of the claim made on behalf of it, that it is capable of maintaining the gold parity of the rupee. This was the criterion laid down by the Chamberlain Commission as a fitting one by which to judge the merits or demerits of that standard. But is the adequacy of that criterion beyond dispute ? In other words, supposing the rupee has maintained its gold parity, which it has only as often as not, does it follow that all the purposes of a good monetary system are therefore subserved ?

In the exchange standard, "as the system is now operated, the coinage is manipulated to keep it at par with gold"* as though money is only important for the amount of gold it will procure. But what really concerns those who use money is not how much gold that money is worth, but how much of things in general (of which gold is an infinitesimal part) that money is worth. Everywhere, therefore, the attempt is to keep money stable in terms of commodities in general, and that is but proper, for what ministers to the welfare of people is not so much the precious metals as commodities and services of more direct utility. Stability of a currency in terms of gold is of importance only to the dealers in gold, but its stability in terms of commodities in general affects all, including the bullion-dealers. Even Prof. Keynes, in his testimony before the Indian Currency Committee of 1919, observed† :—

> "I should aim always...... at keeping Indian prices stable in relation to commodities rather than in relation to any particular metallic or particular foreign currency. That seems to me of far greater importance to India."

It is, of course, a little difficult to understand how the remedy of high exchange which he supported was calculated to achieve that object. Raising the exchange was a futile project, in so far

*Fisher, *Purchasing Power of Money,* 1911, p. 340.

†Q. 2,690.

as it was not in keeping with the purchasing power of the rupee. As an influence governing prices it could hardly be said to possess the virtue he attributed to it. The existing price-level it could affect in no way; nor could a high exchange prevent a future rise of prices. It could only change the base from which to measure prices. Future prices could vary as easily from the new high base-line as prices did in the past from the old baseline. In other words, Mr. Keynes seems to have overlooked the fact that exchange was only an index of the price-level, and to control it, it was necessary to control the price-level and not merely give it another name which it cannot bear and will not endure, as was proved in 1920 when the rupee was given in law the value of 2s. (gold) when in practice it could not fetch even 1s. 4d. sterling, with the result that the rupee exchange sank to the level determined by its purchasing power. But, apart from this question, we have the admission of the ablest supporter of the exchange standard that the real merit of a currency system lies in maintaining the standard of value stable in terms of commodities in general.

Given that this is the proper criterion by which to judge a currency system, we must ask what has been the course of prices in India since the Mint closure in 1893 ? This is a fundamental question, and yet not one among the many who have praised the virtues of the exchange standard has paid any attention to it. In vain may one search the pages of Prof. Keynes, Prof. Kemmerer, or Mr. Shirras for what they have to say of the exchange standard from this point of view. The Chamberlain Commission or the Smith Committee on Indian currency never troubled about the problem of prices in India,* and yet without being satisfied on that score it is really difficult to understand how anyone can give an opinion of any value as to the soundness or otherwise of that standard.

In proceeding to consider the exchange standard from the standpoint of prices, it is as well to premise that one of the important reasons why the Indian Mints were closed to the free coinage of silver was that the rupee was a depreciating currency resulting in high prices.† The dosing of the Mints, therefore,

* Perhaps an exception may be made in the case of the latter Committee ; but its object was only to make it a ground for high exchange.

† *See supra,* Chap. III.

should have been followed by a fall of prices in India; for, to adopt the phraseology of Prof. Fisher,* the pipe-connection between the money reservoir and the silver-bullion reservoir was owing to the Mint closure cut off or stopped, thereby preventing the passage of silver from the bullion reservoir to the money reservoir. In other words, the newly mined silver could not become money after the Mint closure and lower the purchasing power of the rupees in circulation. If this is so, then how very disappointing has been the effect of the Mint closure ! From the standpoint of prices the rupee has become a problem as it had never been before. The rise of prices in India since the Mint closure (*See* Chart VI) has been quite unprecedented in the history of the country. Indeed, the rise of prices in India before the Mint closure, when the pipe-connection between the silver-bullion reservoir and the rupee-currency reservoir was intact, must be regarded as very trifling compared with the rise of prices after the Mint closure when the pipe-connection was cut off. From the standpoint of prices the Mint closure has therefore turned out to be a curse rather than a blessing, and literally so, for, under an ever-rising price-level, life in India is rendered quite unbearable. No people have undergone so much misery owing to high prices as the Indian people have done. During the war period the price-level reached such a giddy height that the reports of suicide by men and women who were unable to buy food and clothing were in no way few and far between, ft may, however, be argued that the rise of prices in India would have been greater if the Mints had not been closed and India had remained a purely silver-standard country. A good deal, no doubt, can be said in favour of this view. It is absolutely true that silver, being universally discarded, has become unfit for functioning as a standard of value. To that extent an exchange standard is better than a pure-silver standard. But is it as good as a gold standard ?

On the basis of the doctrine of purchasing power parities as an explanation of actual exchange rates, one may be led to answer the question in the affirmative. For it may be argued

***Purchasing Power of Money,* 1911, p. 128.

that if the gold value of the rupee was maintained it is because gold prices and rupee prices were equal.* This, it may be said, is all that the exchange standard aims at doing and can be claimed to have done, for the fact that the gold-standard reserve was seldom depleted is a proof that the general prices inside India were on the same level as those ruling outside India. On *a priori* considerations such as these, the exchange standard may be deemed to be as good as a gold standard.

One may ask as to why Indian prices should have been kept as high, if they were no higher than gold prices, and whether it would not have been better to have kept Indian prices on a lower level. But we shall not raise that question. We shall be satisfied if Indian prices were only as high as gold prices. Now did Indian prices rise only as much as gold prices ? A glance at the chart reveals the surprising phenomenon that prices in India not only rose as much as gold prices, but rose more than gold prices. Of course in comparing Indian prices with gold prices to test the efficacy of the exchange standard we must necessarily eliminate the war period, for the reason that gold had been abandoned as a standard of value by most of the countries. And, even if we do take that period into account, it does not materially affect the conclusion, for although India was not a belligerent country, yet prices in India were not very much lower than prices in countries with most inflated currencies during the war, and barring a short period were certainly higher than gold prices in U.S.A.

It is obvious that the facts do not agree with the *a priori* assumption made in favour of the exchange standard. So noticeable must be said to be the local rise in Indian prices above the general price level in England that even Prof. Keynes, not given to exaggerate the faults of the exchange standard, was, as a result of his own independent investigation, convinced that†

> "a comparison with Sauerbeck's index number for the United Kingdom shows that the change in India is *much greater* than can be accounted for by changes occuring elsewhere."

* It is, however, to be noted that neither Prof. Kemmerer nor Prof. Keynes has set up this claim in favour of the exchange standard. If anything, both have argued against the assumption of there being equality of *all* prices.

† "Recent Economic Events in India," in *The Economic Journal,* March, 1909, p. 54. Italic not in the original.

What is then the explanation of this discrepancy between the a *priori* assumption and the facts of the case. The explanation is that the actual exchange rates correspond to the purchasing power parities of two currencies not with regard to *all* commodities but with regard to *some* only. In this connection it is better to re-state the doctrine of the relation of the purchasing power parities to exchange rates with the necessary qualification. A rigorously strict formulation of the doctrine should require us to state that Englishmen and others value Indian rupees inasmuch as and in so far as those rupees will buy *such Indian goods as Englishmen want*; while Indians value English pounds inasmuch as and in so far as those pounds will buy *such English goods as the Indians want.* So stated it follows that the actual exchange rates are related to purchasing power parities of the two currencies with regard to such commodities only as are internationally traded. To assume that the actual exchange rate is an exact index of the purchasing power parity of the two currencies with regard to *all* the commodities is to suppose that the variations in the purchasing power of a currency over commodities which are traded and which are not traded are the same.* There is certainly a tendency for movements in the prices of these two classes of goods to influence one another *in the long run;* so that it becomes possible to say that the exchange value of a currency will be determined by its internal purchasing power. The doctrine of purchasing power parity as an explanation of exchange rates is valuable as an instrument of practical utility for controlling the foreign exchanges *and* it is as such that the doctrine was employed in an earlier portion of this study to account for the fall in the gold value of the rupee. But to proceed, on the basis of this relationship between the purchasing power of a currency and its exchange value, to argue that at any given time the exchange is more or less an exact measure of general purchasing power of the two currencies, is to assume what cannot always be true, namely, that the prices of traded and non-traded goods move in sympathy. This assumption is too large and can only be said to be more or less true according to circumstances. Now as Prof. Kemmerer† points out:—

*Prof. Cassel, the modern exponent of this old doctrine of the relation of exchange rates to purchasing power parities, admits that the correspondence between the two depends upon the fulfilment of this assumption, for he says :

> "Our calculation of the purchasing power parity rests strictly on the proviso that the rise in prices in the countries concerned has affected all commodities in a like degree. If that proviso is not fulfilled, then the actual exchange rate may deviate from the calculated purchasing power parities."— *Money and Foreign Exchange after* 1914, London, 1922, p. 154.

†Op. cit., p. 64.

> "While India's exports and imports in the absolute are large, still, in the main, the people of India live on their own products, and a large part of those products run their life history from production to consumption in a very small territory. They have only the remotest connection with foreign trade, gold, and the gold exchanges. In time, of course, any substantial disturbance in the equilibrium of values in the country's import and export trade will make itself felt in these local prices, but allowing for exceptions, it may be said that in a country like India the influences of such disturbances travel very slowly and lose much of their momentum in travelling."

In consequence of the thinness of connection between the two it is obvious that the prices of such Indian goods as do enter into international trade cannot always be said to move in more or less the same proportion as those which do not. Besides this thinness of connection which permits of deviations of the general purchasing power of a currency from the level indicated by the actual exchange rate, it is to be noted that the prices of Indian commodities which largely enter into international trade are not governed by local influences. Such exports of India as wheat, hides, rice and oil seeds are international commodities, not solely amenable to influences originating from changes that may be taking place in the prices of home commodities and services. The combined effect of these two circumstances, except in abnormal events such as the war, is to militate against the prices of traded and non-traded goods moving in quick sympathy.*

If this is true, then, although the maintenance of the exchange standard does imply a purchasing power parity of the rupee with gold, it is not a purchasing power parity of the two currencies with respect to *all* the commodities. All that it implies is that the purchasing power of the rupee over such commodities as entered into international trade was on a par with gold, so that there did not often arise the necessity of exhausting the gold reserve. The preservation of the gold reserve only meant that there was equality of prices so far as internationally traded goods were concerned. Thus interpreted, the fact that the rupee

* This is merely re-stating what has previously been stated to explain why specific depreciation of the rupee does not immediately follow upon its general depreciation.

maintained its gold value does not preclude the possibility of Indian prices being, on the whole, higher than gold prices, thereby vitiating the *a priori* view that the exchange standard is as good as the gold standard.

It should be pointed out* that all changes of prices affect more or less the welfare of the individual. However, the general flexibility of the modern economic organization, with its mobility of capital and labour, free competition, power of choice, inventive genius and intellectual resources of enterpreneurs and merchants, takes care of the normal and temporary fluctuations of prices. But when a change in the price-level is general and persistent in one direction the case is otherwise. Arrangements based on the expectation that the price movement is only temporary, and that there will be a return to the former normal position, constantly come to naught. Suffering endured in holding on for the turn in the movement cannot be offset by gains in another. In short, such a persistent price movement in one direction is bound to confound ordinary business sagacity and so vitiate all calculations for the future as to result in unlimited dislocation or loss and subject the individual to such powerful and at the same time incalculable influences that his economic welfare cannot but escape entirely from his control, and prudence, forethought, and energy become of no avail in the struggle for existence. Perfect stability of value in a monetary standard is as yet only an ideal. 'But the evil consequences of instability are so great that Prof. Marshall, believing as he did that the general prejudice against tampering with the monetary foundations of economic life was a healthy prejudice, yet observed that much may be done towards safeguarding the economic welfare of communities by lessening its variability.† A depreciating standard of value, as gold has been since 1896, is an evil. But can a standard of value, undergoing a continuous depreciation as has been the case with the exchange standard, and that too of a greater depth than the gold standard—in other words, causing a greater rise of prices—be regraded as a good standard of value ?

* What follows is condensed from Mayo-Smith's "Price Movements and Individual Welfare," in the *Political Science Quarterly,* Vol. XV, No. 1 (March, 1900), pp. 14-17.

† Cf." Remedies for Fluctuations of General Prices," in *The Contemporary Review,* March, 1887, *passim.*

In the light of this it is strange that Prof. Keynes, in his treatise on *Indian Currency and Finance,* should have maintained that the exchange standard contained an essential element in the ideal standard of the future*—a view subsequently endorsed by the Chamberlain Commission. If stability of purchasing power in terms of commodities in general is the criterion for judging a system of currency, then few students of economics will be found to agree with Prof. Keynes. Perhaps it is not too sanguine to say that even the Prof. Keynes of 1920 will prefer a gold standard to a gold-exchange standard, for under the former prices have varied much less than has been the case under the latter.

In this connection attention may be drawn to the prevalent misconception that India is a gold-standard country. It will be admitted that the best practical test whether any two countries have the same standard of value is to be found in the character of the movements in their price-levels. So sure is the test that Prof. Mitchell, after a very careful and wise survey of the price-level of different countries and the American price-level during the greenback period, was led to observe† that

> "when two countries have a similar monetary system and important business relations with each other, the movements of their price-levels as represented by index-numbers are found to agree rather closely. This agreement is so strong that similarity of movement is usually found even when comparisons are made with material so crude as index-numbers compiled from unlike lists of commodities and computed on the basis of actual prices in different years." Now, we know that before the war England was a gold-standard country, and we also know that there was no close correpondence between the contemporary movements of the price-levels of India and England. In view of this, it is only a delusion to maintain that India has been a gold-standard country. On the other hand, it is better to recognise that India has yet to become a gold-standard country unless we are to fall into the same error that Prof. Fisher‡ must be said to have

* Op. cit., p. 36.

† *Gold, Prices, and Wages under the Greenback Standard,* 1908, p. 27.

‡ *Purchasing Power,* etc., 1911, p. 340.

committed in attributing the extraordinary rise of prices in India to the existence of a gold standard, when, as a matter of fact, it should have been attributed to the want of a gold standard.

How can she become a gold-standard country ? The obvious answer is, by introducing a gold currency. Prof. Kenyes scoffs at the view that there cannot be a gold standard without a gold currency as pure nonsense.* He seems to hold that a currency and a standard of value are two different things. Surely there he is wrong. Because a society needs a medium of exchange, a standard of value, and a store of value to sustain its economic life, it is positively erroneous to argue that these three functions can be performed by different instrumentalities. On the other hand, as Professor Davenport insists.†

> "all the different uses of money are merely different aspects or emphasis of the intermediate function. Deferred payments ...... are merely deferred payments of the intermediate. So again of the standard aspect; whatever is the general intermediate is by that fact the standard. The functions are not two, but one ....., Clearly, also, the intermediate may be a storehouse of purchasing power. The second half of the barter may be deferred. The intermediate is generalized purchasing power. Delay is one of the privileges which especially the intermediate function carries with it."

Thus the rupee by reason of being the currency is also the standard of value. If we wish to make gold the standard of value in India we must introduce it into the currency of India. But it may be asked what difference could it make to the price level in India if gold were made a part of the Indian currency ? To answer this question it is necessary to lay bare the nature of the rupee currency. Now it will be granted that a standard of value which is capable of expansion as well as contraction is likely to be more stable than one which is incapable of (such a manipulation. The rupee currency is capable of)‡ easy expansion, but is not capable of easy contraction by reason of the fact that it is neither exportable nor meltable, nor is it

* Op. cit., p. 29.

† Op. cit., pp. 255-56 ; cf. also F. A. Walker, *Money in its Relation to Trade,* p. 27 ; and C M. Walsh, *The Fundamental Problem in Monetary Science,* p. 304.

‡*The portion in the bracket is missing in the Evolution of Provincial Finance*—Ed.

convertible at will. The effects of such a currency as compared with those of an exportable currency were well brought out by the late Hon. Mr. Gokhale in a speech in which he observed.*

> "Now, what is the difference if you have an automatic self-adjusting currency, such as we may have with gold or we had with silver before the year 1893, and the kind of artificial currency that we have at present ? Situated as India is you will always require, to meet the demands of trade, the coinage of a certain number of gold or silver pieces, as the case may be, during the export season, that is for six months in the year. When the export season is brisk money has to be sent into the interior to purchase commodities. That is a factor common to both situations, whether you have an artificial currency, as now, or a silver currency, as before 1893. But the difference is this. During the remaining six months of the slack season there is undoubtedly experienced a redundancy of currency, and under a self-adjusting automatic system there are three outlets for this redundancy to work itself off. The coins that are superfluous may either come back to the banks and to the coffers of Government, or they may be exported, or they may be melted by people for purposes of consumption for other wants. But where you have no self-adjusting and automatic currency, where the coin is an artificial token currency, such as our rupee is at the present moment, two out of three of these outlets are stopped. You cannot export the rupee without heavy loss, you cannot melt the rupee without heavy loss, and consequently the extra coins must return to the banks and coffers of the government or they must be absorbed by the people. In the latter case the situation is like that of a soil which is water-logged, which has no efficient drainage, and the moisture from which cannot be removed. In this country the facilities for banking are very inadequate, and therefore our money does not swiftly return back to the banks or Government Treasuries. Consequently, the extra money that is sent into the interior often gathers here and there like pools of water turning the whole soil into a marsh. I believe the fact cannot be gainsaid that the stopping of two outlets out of the three tends to raise prices by making the volume of currency redundant."

Had gold formed a part of the Indian currency it would have not only met the needs for expansion but would have permitted

* *Supreme Legislative Council Proceedings,* Vol. L. p. 642.

contraction of *currency* in a degree unknown to the rupee. Gold would be superior to the rupee as a standard of value for the reason that the former is expansible as well as contractible, while the latter is only expansible but not contractible. This is merely to state in different language what has already been said previously, that the Indian monetary standard, instead of being a gold or a gold-exchange standard, is in all essentials an inconvertible rupee standard like the paper pound of the Bank Suspension period, and the extra local rise of prices which in itself an inconvertible proof of the identity of the two systems, is characteristic of both, is, to use the language of the Bullion Report*

> "the effect of an excessive quantity of a circulating medium in a country which has adopted a currency not exportable to other countries, or not convertible at will into a coin which is exportable."

Therefore, if some mitigation of the rise in the Indian price-level is desirable, then the most essential thing to do is to permit some form of "exportable" currency such as gold to be a counterpart of the Indian monetary system.

The Chamberlain Commission expended much ingenuity in making out a case against a gold currency in India.† The arguments it urged were : (1) Indian people will hoard gold and will not make it available in a crisis: (2) that India is too poor a country to maintain such an expensive money material as gold ; (3) that the transactions of the Indian people are too small to permit of a gold circulation ; and (4) paper convertible into rupees is the best form of currency for the people of India as being the most economical, and that the introduction of a gold currency will militate against the popularity of notes as well as of rupees. The bogy of hoarding is an old one, and would really be an argument of some force if hoarding was something which knew no law. But the case is quite otherwise. Money, being the most saleable commodity and the least likely, in a well-ordered monetary system, to deteriorate in value during short periods, is hoarded continually by all people, i,e, treated as a store of value. But in treating it as a store of value the possessor

* Prof. Cannan's Reprint, p. 17.

† Report, pp. 15-19. The same arguments will be found in Chap. IV of Mr. Keynes's treatise.

of money is comparing the utilities he can get for the money, by disposing of it now, with those he believes he can get for it in the future, and if the highest present utility is not so great as the highest future utility, discounted for risk and time, he will hoard the money. On the other hand, he will not hoard the money if the present use was greater than the future use. That being so, it is difficult to understand why hoarding should be an objection to a gold currency for the Indian people. If they hoard gold that means they do not care to spend it on current purchases or that they have another form of currency which is inferior to gold and which they naturally like to part with first. On the other hand, if they do wish to make current purchases and have no other form of currency they cannot hoard gold. There are instances when precious metals have been exported from India, when occasion had called for it,* showing that the hoarding habit of the Indian peoples is not such an unknown quantity as is often supposed, and if on some occasions† they hoarded an exportable currency when they should have released it, it is not the fault of the people but of the currency system in which the component parts of the total stock of money are not equally good as a store of value. The argument from hoarding, if it is an argument, can be used aginst any people, and not particularly against the Indian people.

The second argument against a gold currency in India has no greater force than the first. If gold were to disappear from circulation then the cause can be nothing else but the over-issue of another kind of money. In the nineties, when the question of establishing a gold standard in India was being considered, some people used to point to the vain efforts made by Italy and the Austrian Empire to promote the circulation of gold. That their gold used to disappear is a fact, but it was not due to their poverty. It was due to their paper issues. Any country can maintain a gold currency provided it does not issue a cheaper substitute.

Again, if gold will not circulate because transactions are too small the proper conclusion is not that there should be no gold circulation but that the unit of currency should be small enough to meet the situation. The difficulties of circulation raises a problem of coinage. But the considerations in respect of coinage

*See the Memorandum by Mr. Dalai to the Chamberlain Commission Appendices, Vol. III, No. XXXIII, pp. 673-75, for this and other cognate topics.

† In the crisis of 1907-8 the Indian people were accused of this. Yet it must be noted that in that crisis some gold was exported on private account.

cannot be allowed to rule the question as to what should be the standard of value. If the sovereign does not circulate it cannot follow that India should not have a gold currency. It merely means that the sovereign is too large for circulation. The case, if at all there is one, is against the sovereign as a unit and not against the principle of a gold currency. If the sovereign is not small enough the conclusion is we must find some other coin to make the circulation of gold effective.

The fourth argument against a gold currency is one of fact, and can be neither proved nor disproved except by an appeal to evidence whether or not gold currency has the tendency ascribed to it. But we may ask, is there no danger in a system of currency composed of paper convertible into rupees ? Will the paper have no effect on the value of the rupee ? The Commission, if it at all considered that question, which is very doubtful, was perhaps persuaded by the view commonly held, that as the paper currency was convertible it could not affect the value or the purchasing power of the rupee. In holding this view it was wrong ; for, the convertibility of paper currency to the extent it is uncovered does not prevent it from lowering the value of the unit of account into which it is convertible, because by competition it reduces the demand for the unit of account and thus brings about a fall in its value. Thus the paper, although economical as a currency, is a danger to the value of the rupee. This danger would have been of a limited character if the rupee had been freely convertible into gold. But the danger of a convertible paper currency to the value of a unit of account becomes as great as that of an inconvertible paper currency if that unit is not protected against being driven below the metal of ultimate redemption by free convertibility into that metal.* The rupee is not protected by such convertibility, and as the Commission did not want that it should be so protected it should have realized that it was as seriously jeopardizing the prospects of the rupee being maintained at par with commodities in general, and therefore with gold, by urging the extension of a paper currency, be it ever so perfectly convertible, as it could have done by making the paper altogether inconvertible. But so observed was the Commission with considerations of

* For an illuminating discussion on this topic, cf. *Money: Its Connection with Rising and Falling Prices,* by Prof. Cannan, 3rd ed., pp. 47-8.

economy and so reckless was it with considerations of stability of value, that it actually proposed a change in the basis of the Indian paper currency from a fixed issue system to that of a fixed proportion system.* That, at the dictates of considerations of economy, the Commission should have neglected to take account of this aspect of the question, is only one more evidence of the very perfunctory manner in which it has treated the whole question of stability of purchasing power so far as the Indian currency was concerned.

If there is any force in what has been urged above, then surely a gold currency is not a mere mattter of "sentiment" and a "costly luxury," but a necessity dictated by the supreme interest of steadying the Indian standard of value, and thereby to some extent, however slight, safeguarding the welfare of the Indian people from the untoward consequences of a rising price-level.

We now see how very wrong the Chamberlain Commission was from every point of view in upholding the departure from the plan originally outlined by the Government of India and sanctioned by the Fowler Committee. But that raises the question : How did that ideal come to be so ruthlessly defeated ? If the Fowler Committee had proposed that gold should be the currency of India, how is it that gold ceased to be the currency ? It cannot be said that the door is closed against the entry of gold, for it has been declared legal tender. Speaking in the language of Prof. Fisher, the movement of gold in the money reservoir of India is allowed a much greater freedom so far as law is concerned than can be said of silver. Silver, in the form of rupees, is admitted by a very narrow valve which gives it an inlet into that reservoir, but there is no outlet provided for it. On the other hand, gold is admitted into the same reservoir by a pipe-connection which gives it an inlet as well as an outlet. Why, then, does not gold flow into the currency reservoir of India ? A proper understanding on this question is the first step towards a return to the sound system proposed in 1898.

On an examination of the literature which attempts to deal with this aspect of the question, it will be found that two explanations are usually advanced to account for the non-entry of gold into the currency system of India. One of them is the sale of council bills by the Secretary of State. The effect of the sale of council bills, it is said, is to prevent gold from going to India. Mr. Subhedar, said to be an authority on Indian currency,

* Report, Sec. 112.

in his evidence before the Smith Committee (Q. 3,502), observed:—

> "Since 1905 it has been the deliberate attempt of those who control our currency policy to prevent gold going to India and into circulation."

The council bill has a history which goes back to the days of the East India Company.* The peculiar position of the Government of India, arising from the fact that it receives its revenues in India and is obliged to make payments in England, imposes upon it the necessity of making remittances from India to England. Ever since the days of the East India Company the policy has been to arrange for the remittance in such a way as to avoid the transmission of bullion. Three modes of making the remittance were open to the Directors of the East India Company: (1) sending bullion from India to England; (2) receiving money in England in return for bills on the Government of India; and (3) making advances to merchants in India for the purchase of goods consigned to the United Kingdom and repayable in England to the Court of Directors of the Company to whom the goods were hypothecated. Out of these it was on the last two that greater reliance was placed by them. In time the mode of remittance through hypothecation of goods was dropped" as introducing a vicious system of credit, and interfering with the ordinary course of trade." The selling of bills on India survived as the fittest of all the three alternatives,† and was continuned by the Secretary of State in Council—hence the name, council bill—when the Government of India was taken over by the Crown from the Company. In the hands of the Secretary of State the council bill has undergone some modifications. The sales as now effected are

* Cf. the Memorandum by Sir Henry Waterfield relating to the system of effecting remittances from India, Appendix to the Fowler Committee's Report, p. 24 ; also memorandum by F. W. Newmarch on the Sale of Council Bills and Telegraphic Transfers. Appendices to the Interim Report of the Royal Commission on Indian Finance and Currency, Vol. I, No. VIII, p. 217.

† There was a fourth one, viz., the Government of India purchasing sterling bills in India on London and sending them to the Secretary of State for collection. It was employed for a short period of time in 1877, but was afterwards dropped.

weekly sales,* and are managed through the Bank of England, which issues an advertisement on every Wednesday on behalf of the Secretary of State for India, inviting tenders to be submitted on the following Wednesday for bills payable on demand by the Government of India either at Bombay, Madras, or Calcutta. The minimum fraction of a penny in the price at which tenders of bills are received has now† been fixed at $\frac{1}{32}$ nd of a penny. The council bill is no longer of one species as it used to be. On the other hand there are four classes of bills: (1) ordinary bills of exchange, sold every Wednesday, known as *"Councils";* (2) telegraphic transfers, sold on Wednesdays, called shortly "*Transfers*"; ‡ (3) ordinary bills of exchange, sold on any day in the week excepting Wednesday, called "*Intermediates"*; and (4) telegraphic transfers, sold on any day excepting Wednesday, named "*Specials."* Now, in what way does the Secretary of State use his machinery of council bills to prevent gold from going to India ? It is said that the price and the magnitude of the sale are so arranged that gold does not go to India. Before we examine to what extent this has defeated the policy of the Fowler Committee, the following figures (Tables LI and LII, pp. 579 and 582) are presented for purposes of elucidation.

From an examination of these tables two facts at once become clear. One is the enormous amount of council bills the Secretary of State sells. Before the closing of the Mints the sales of council bills moved closely with the magnitude of the home charges, and the actual drawings did not materially deviate from the amount estimated in the Budget. Since the closure of the Mints the drawings of the Secretary of State have not been governed purely by the needs of the Home Treasury. Since the closure, the Secretary of State has endeavoured§ :—

> "(1) To draw from the Treasuries of the Government of India during the financial year the amount that is laid down in the Budget as necessary to carry out the Ways and Means programme of the year.

* From January 22, 1862, when the Sale of Council Bills under the authority of the Secretary of State first took place, up to November, 1862, the sales were effected monthly. From November, 1862, the sales were effected fortnightly ; and in August, 1876, they were made weekly.

† From January to march, 1862, the minimum fraction was a farthing ; it was reduced to $^1/_8$ th of a penny in March 1862, to 1/16th in January 1875, and to 1/32nd in 1882, at which fraction it has continued since then.

‡ First introduced in 1876.

§ Cf. Memorandum on the Sale of Council Bills, by F. W. Newmarch, to the Chamberlain Commission, App. Vol. I, No. VII. p. 222.

TABLE LI

Balance of Trade, Council Drawings and Imports op Gold before 1893

Years.	Balance of Trade (Merchandise : Private Account).	Net Imports of Treasure.		Amount of Council-Bills drawn.	Excess (+) or Deficiency (—) of Bills drawn as compared with Budget Estimate.	Home Charges.	Cash Balances in the Home Treasury.	Minimum Rate for Council Bills.
		Gold.	Silver.					
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	£	£ 000,000	£ 000,000	£	£	£	£	s. d.
1870-71	20,863,000	2.13	.9	—	—	10,031,261	3,305,972	1 10 $\frac{1}{4}$
1871-72	31,094,000	3.43	6.3	—	—	9,703,235	2,821,091	1 10 $\frac{3}{8}$
1872-73	23,376,000	2.41	.7	13,939,095	+ 939,095	10,248,605	2,998,444	1 10 $\frac{3}{8}$
1873-74	21,160,000	1.29	2.3	13,285,678	- 214,322	9,310,926	2,013,638	1 9 $\frac{1}{2}$
1874-75	20,137,000	1.73	4.3	10,841,615	+ 841,615	9,490,391	2,796,370	1 9 $\frac{3}{4}$
1875-76	19,204,000	1.40	1.4	12,389,613	-1,910,387	9,155,050	919,899	1 9
1876-77	23,573,000	.8	6.1	12,695,800	- 964,200	13,851,296	2,713,967	1 6 $\frac{1}{2}$
1877-78	23,758,000	.1	12.7	10,134,455	-2,115,545	14,048,350	1,076,657	1 8 $\frac{3}{16}$
1878-79	23,167,000	.4	3.3	13,948,565	-3,051,435	13,851,296	1,117,925	1 6 $\frac{5}{8}$
1879-80	26,046,000	1.45	6.5	15,261,810	+ 261,810	14,547,664	2,270,107	1 7
1880-81	21,464,000	3.03	3.2	15,239,677	-1,660,323	14,418,986	4,127,749	1 7 $\frac{1}{2}$
1881-82	32,855,000	4.02	4.5	18,412,429	+ 1,212,429	14,399,083	2,620,909	1 7 $\frac{3}{8}$
1882-83	31,389,000	4.01	6.1	15,120,521	- 221,479	14,101,262	3,429,874	1 7
1883-84	23,611,600	4.44	5.2	17,599,805	+ 1,299,805	15,030,195	4,113,221	1 7 $\frac{7}{8}$
1884-85	20,034,100	3.76	5.8	13,758,909	-2,741,091	14,100,982	2,249,378	1 6 $\frac{3}{4}$
1885-86	21,344,200	2.10	8.8	10,292,692	-3,481,008	14,014,733	4,726,58	1 5 $\frac{7}{8}$
1886-87	19,844,800	1.58	5.2	12,136,279	-1,195,121	14,409,949	5,280,829	1 4 $\frac{1}{8}$
1887-88	18,724,400	2.10	6.5	15,358,577	- 891,423	15,389,065	5,900,697	1 4 $\frac{3}{8}$
1888-89	20,271,900	1.92	6.3	14,262,859	+ 262,859	14,983,221	3,259,933	1 4
1889-90	24,557,800	318	7.6	15,474,496	+ 784,596	14,848,923	5,402,873	1 4
1890-91	20,733,800	4.25	10.7	15,969,034	+ 980,034	15,568,875	3,885,050	1 4 $\frac{15}{16}$
1891-92	27,632,400	1.68	6.3	16,093,854	+ 93,854	15,874,699	4,122,626	1 3 $\frac{1}{16}$
1892-93	29,287,300	1.75	8.0	16,532,215	- 467,785	16,334,541	12,268,388	1 2 $\frac{5}{8}$

"(2) To draw such further amounts as may be required to pay for purchases of silver bought for coinage purposes.

"(3) To draw such further amounts as an unexpectedly prosperous season may enable the Government to spare, to be used towards the reduction or avoidance of debt in England.

"(4) To sell additional bills and transfers to meet the convenience of trade.

"(5) To issue telegraphic transfers on India in payment for sovereigns which the Secretary of State has purchased in transit from Australia or from Egypt to India."

The result of such drawings is that the councils are made to play an enormous part in the adjustment of the trade balance of India and the swelling of balances in the Home Treasury and the locking up of Indian funds in London. The second point to note in comparing the preceding tables is with regard to the price at which the Secretary of State makes his sales. Before the closure of the Mints the price of the council bills was beyond the control of the Secretary of State, who had therefore to accept the price offered by the highest bidder at the weekly sale of his bills. But it is objected that there is no reason why the Secretary of State should have continued the old practice of auctioning the rupee to the highest bidder when the closing of the Mints had given him the sole right of manufacturing it. Availing himself of his monopoly position, it is insisted, the Secretary of State should not have sold his bills below 1s. 4 $1/_{8}$d. or 1s. 4 $3/_{32}$d., which, under the ratio of 15 rupees to the sovereign, was for India the gold-import point. In practice the Secretary of State has willed away the benefit of his position, and has accepted tenders at rates below gold-import point, as may be seen from the minimum rates he has accepted for his bills.

It is said that if the council bills were sold in amounts required strictly for the purposes of the Home Treasury, and sold at a price not below gold-import point, gold would tend to be imported into India and would thus become part of the Indian currency media. As it is, the combined effect of the operations of the

Secretary of State is said to be to lock up Indian gold in London. With the use or misuse of the Indian gold in London we are not here concerned. But those who are inclined to justify the India Office scandals in the management of Indian funds in London, and have offered their services to place them on a scientific footing, may be reminded that a practice on one side of Downing Street which Bagehot said could not be carried on on the other side of it without raising a storm of criticism, would require more ingenuity than has been displayed in their briefs. This much seems to have been admitted on both sides that the operations of the Secretary of State do prevent the importation of gold into India, not altogether, but to the extent covered by their magnitude. Now, those who have held that the ideal of the Fowler Committee has been defeated are no doubt right in their view that the narrowing of the Secretary of State's operation would lead to the importation of gold into India. But what justification is there for assuming that the imported gold would become a part of the currency of India ? The assumption that the abolition of the Secretary of State's financial dealings would automatically make gold the currency of India is simply a gratuitious assumption. Whether the imported gold would become current depends on quite a different circumstance.

The other explanation offered to explain the failure of the ideal of the Fowler Committee is the want of a Mint in India open to the free coinage of gold. The opening of the Mints to the free coinage of gold has been regarded as the most vital recommendation of the Fowler Committee ; indeed, so much so that the frustration of its ideal has been attributed to the omission by the Government to carry it out. The consent given by the Government in 1900 to drop the proposal under the rather truculent attitude of the Treasury has ever since been resented by the advocates of a gold currency. A resolution was moved in 1911 by Sir V. Thackersay, in the Supreme Legislative Council, urging upon the Government the desirability of opening a gold Mint for the coinage of the sovereign if the Treasury consented, and if not for the coinage of some other gold coin. In deference to the united voice of the Council, the Government

TABLE LII

BALANCE OF TRADE, COUNCIL DRAWINGS AND IMPORTS OF GOLD AFTER 1893

Years.	Balance of Trade (Merchandise: Private Account).	Net Imports of Treasure.		Amount of Council Bills drawn.	Excess (+) or Deficiency (—) of Bills drawn as compared with Budget Estimate.	Home Charges.	Cash Balances in the Home Treasury.	Minimum Rate for Council Bills.
		Gold.	Silver.					
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	£	£ 000,000	£ 000,000	£	£	£	£	s. d.
1893-94	21,660,500	– .39	8.3	9,530,235	– 9,169,765	15,826,815	1,300,564	1 1.500
1894-95	25,765,000	– 2.7	3.4	16,905,102	– 94,898	15,707,367	1,503,124	1 0.000
1895-96	29,963,800	1.5	3.7	17,664,492	+ 664,492	15,603,370	3,393,798	1 1.000
1896-97	21,333,100	1.4	3.5	15,526,547	– 973,453	15,795,836	2,832,354	1 1.781
1897-98	18,847,000	3.2	5.4	9,506,077	– 3,493,923	16,198,263	2,534,244	1 2.250
1898-99	29,560,700	4.3	2.6	18,692,377	+ 2,692,377	16,303,197	3,145,768	1 3.094
1899-1900	25,509,600	6.3	2.4	19,067,022	+ 2,067,022	16,392,846	3,330,943	1 3.875
1900-01	20,727,400	.5	6.3	13,300,277	- 3,139,723	17,200,957	4,091,926	1 3.875
1901-02	28,630,600	1.3	4.8	18,539,071	+ 2,039,071	17,368,655	6,693,137	1 3.875
1902-03	33,352,600	5.8	4.6	18,499,946	+ 1,999,946	18,361,821	5,767,787	1 3.875
1903-04	45,424,100	6.6	9.1	23,859,303	+ 6,859,303	18,146,474	7,294,782	1 3.875
1904-05	40,548,200	6.5	8.9	24,425,558	+ 7,925,558	19,463,757	10,262,581	1 3.969
1905-06	39,086,700	.3	10.5	32,166,973	+ 14,333,973	18,617,465	8,436,519	1 3.938
1906-07	45,506,600	9.9	16.0	33,157,196	+ 15,357,196	19,208,408	5,606,812	1 3.969
1907-08	31,640,000	11.6	13.0	16,232,062	– 1,867,938	18,487,267	5,738,489	1 3.906
1908-09	21,173,300	2.9	8.0	13,915,426	– 4,584,574	18,925,159	8,453,715	1 3.906
1909-10	47,213,000	14.5	6.3	27,096,586	+ 10,896,586	19,122,916	15,809,618	1 3.906
1910-11	53,685,300	16.0	5.8	26,783,303	+ 11,283,303	19,581,563	18,174,349	1 3.906
1911-12	59,512,900	25.1	3.6	27,058,550	+ 9,900,250	19,957,657	19,463,723	1 3.937
1912-13	57,020,900	22.6	11.5	25,759,706	+ 10,259,706	20,279,572	9,789,634	1 3.969
1913-14	43,753,900	15.6	8.7	31,200,827	+ 10,000,827	20,311,673	3,157,732	1 3.937
1914-15	29,108,500	5.1	5.9	7,748,111	— 12,251,889	20,208,598	7,913,236	1 3.937
1915-16	44,026,600	– .7	3.2	20,354,517	+ 13,354,517	20,109,094	12,803,348	1 3.937
1916-17	60,843,200	8.82	12.5	32,998,095	+ 29,093,095	21,145,627	11,391,993	1 4.031
1917-18	61,420,000	16.8	12.7	34,880,682	+ 34,880,682	26,065,057	16,625,416	1 4.156
1918-19	56,540,000	– 3.7	45.3	20,946,314	+ 20,946,314	23,629,495	14,715,827	1 4.906

of India again asked the Secretary of State to approach the Treasury for its sanction.* The Treasury on this occasion presented the Secretary of State† with two alternatives : (1) That a branch of the Royal Mint be established at Bombay solely for the purpose of coining gold into sovereigns, and exclusively under its control; or (2) that the control of the Mint at Bombay should be entirely transferred to it. Neither of the two alternatives was acceptable to the Government of India ; and the Secretary of State, as a concession to Indian sentiment, sanctioned the issue of a ten-rupee gold coin from the Indian Mint. The Government of India preferred this solution to that suggested by the Treasury, but desired that the matter be dealt with afresh by the Chamberlain Commission then sitting. That Commission did not recommend a gold Mint,‡ but saw no objection to its establishment provided the coin issued was a sovereign, and if the coinage of it was desired by Indian sentiment and if the Government did not mind the expense of coinage.§ This view of the Commission carried the proposition no further than where it was in 1900, until the war compelled the Government to open the Bombay Mint for the coinage of gold as a branch of the Royal Mint. But it was again closed in 1919. Its reopening was recommended by the Currency Committee of 1919,¶ and so enthusiastically was the project received that an Honourable Member of the Supreme Council took the unique step of tempting the Government into adopting that recommendation by an offer to increase the Budget Estimates under "Mint" to enable the Government to bear the cost of it. The Government, however, declined the offer with thanks so we have in India the singular spectacle of a country in which there was a Gold Mint even when Gold was not legal tender, as was the case between 1835-93, while there is no gold Mint, when gold is legal tender, as has been the case since 1893. Just what an open Mint can do in the matter of promoting the ideal of the Fowler Committee it is difficult to imagine; but the following extracts from the evidence of a witness (Mr. Webb), than whom there was no greater advocate of an open gold Mint before the Chamberlain Commission, help to indicate just what is expected from a gold Mint.

**See* Commons Paper 495, of 1913 ; p. 57.

†*Ibid,* p. 64.

‡Report, sees. 69-71.

§ The Commission recommended that if a gold Mint was not established in India Government should renew the notification withdrawn in 1906 to receive refined gold on suitable terms.—Report, sec. 72.

¶ Report, par. 67.

"The principal advantage which you would expect to derive from a gold Mint is that you would increase the amount of gold coin in circulation ?—That would be one of the tendencies.

"Is there any other advantage ?—The advantage is that the country would be fitted with what I regard as an essential part of its monetary mechanism. I regard it as an essential part of its currency mechanism that it should have a Mint at which money could be coined at the requisition of the public.

"I want to get exactly at your reason why that is essential. Am I right in thinking that you consider it essential to a proper currency system that there should be a gold currency ?— Yes.

"And essential to a gold currency that there should be a gold Mint?—Yes, on the spot in India itself...... It would do away, in a measure, with the management by the Secretary of State of the Foreign Exchanges, in that there would be always the Mint at which the public could convert their gold into legal-tender coins in the event of the Secretary of State taking any action of which the public did not approve. It is a safeguard, so to speak, an additional safeguard, that the people of India can on the spot obtain their own money on presentation of the metal."

Here, again, the assumption that a gold Mint is a guarantee that there will be a gold currency seems to be one as gratuitous as the former assumption that if gold were allowed to be freely imported it would on that account become part of the currency. On the other hand, there are cases where Mints were open, yet there was neither gold coinage nor gold currency. Instances may be cited from the history of the coinage at the Royal Mint in London. The magnitude of gold coinage during the bank suspension period, 1797-1821, or the late war, 1914-18, is instructive from this point of view. The Mint was open in both cases, but what was the total coinage of gold ?Throughout the suspension period the gold coined was negligible, and during the years 1807, 1812, and 1814-16 no gold was coined at all at the Royal Mint.* Again, during the late war the coinage of gold fell off from 1915, and from 1917 it ceased altogether.†

* *See* G. R. Porter, *Progress of the Nation* (Ed. Hirst) p. 568.

† *See* Report of the Deputy Master of the Royal Mint, 1921.

These instances conclusively show that although a Mint is useful institution, yet there is no magic in a Mint to attract gold to it. The historical instances adduced above leave no doubt that the circulation of gold is governed by factors quite independent of the existence or non-existence of a Mint open to the free coinage thereof.

Now, it is an established proposition of political economy that when two kinds of media are employed for currency purposes the bad one drives out the good one from circulation. Applying this principle to the situation in India, it should be evident that so long as there is an unlimited issue of rupees gold cannot circulate in India. This important principle has been so completely overlooked by those who have insisted on the introduction of a gold currency that they have not raised a finger against the unlimited issue of rupees. Mr. Webb, the fiercest opponent of the India Office malpractices, and the staunchest supporter of the view that if only the Secretary of State could be made to contract his drawings gold would flow and be a part of the currency in India, recommended to the Chamberlain Commission that—

> "The sales of Council Drafts should be strictly limited to the sum required to meet the Home Charges, and no allotments should in any circumstances be made below, say, 1s. 4 $^{1}/_{8}$d. to 1s. 4$^{3}/_{32}$d.—i.e. about the present equivalent of specie point for gold imports into India. The sum required in London for Home Charges having been realized, *no further sales of Council Drafts should be made except for the express purpose—duly notified to the public—of purchasing metal for the manufacture of further token coinage.* Such special sales of Council Drafts should not be made at anything below specie point for gold imports."†

Again, Sir V. Thackersay, in the course of his speech on March 22, 1912, moving a resolution in the Legislative Council, asking the Government to open the Mint for the coinage of gold in India, observed :—

> "Let me make myself clear on one point. *I do not suggest that Government should give up the right to coin rupees or refuse to give rupees when people demand the same.* I do

* *See* Report of thc Deputy Master of the Royal Mint, 1921.

† Italics not in the original.

not propose to touch the gold-standard reserve, which must remain as it is as the ultimate guarantee of our currency policy. My proposal does not interfere with the existing arrangements in any way, but is merely supplementary to them ...... Let the Government of India accumulate gold to the maximum limit of its capacity, but let the surplus gold which it cannot absorb be coined and circulated if the public chooses to do so. With our expanding trade and the balance in our favour, gold will continue to be imported in ordinary time, and *if the facilities of minting are provided in India, it will go into circulation.*"*

These are surely not the ways of promoting a gold currency. Indeed, they run counter to it. So long as the coinage of rupees goes on gold will not enter into currency. Indeed, to cry out on the one hand against the huge drawings of the Secretary of State and the consequent transfer of Indian funds to London and their mismanagement by the Secretary of State, and on the other hand to permit him to manufacture additional token coinage of rupees, is to display not only a lamentable ignorance of a fundamental principle of currency, but also to show a complete failure to understand the precise source from which the whole trouble arises. It is true that the Government of India cannot bind the Secetary of State to any particular course of action,† and he often does override the provisions of the Annual Budget. But the question remains. How is it that he is able to draw so much more after 1893 than he ever did before ? It must be remenbered that whatever the Secretary of State does with the funds in London he must pay for his drawings in India. Before 1893 he drew less because his means of payment were less ; after 1893 he drew more because his means of payment were greater. And why were his means of payment greater ? Simply because he had been able to coin rupees. Indeed, the amount of drawings are limited by the demand for them and by his capacity to coin rupees. It is therefore foolish to blame the Secretary of State for betraying the interests of India and at the same time to permit him to coin rupees, the very means by which

* *S.L.C.P.,* Vol. L, pp. 637-38. Italics not in the original.

† The legal position of the Secretary of State and the extent to which he can be bound by the provisions of any law passed by the Government of India were well explained by Sir James Westland in his speech on the Indian Paper Currency (Amendment) Bill, which afterwards became Act II of 1898 ; compare also the peculiar wording of that Act.

he is able to betray. If a gold currency is wanted, and it is wanted because the rupee is a bad standard of value, then what is necessary is not to put a limit on the drawings of the Secretary of State or the opening of a gold Mint, but a short enactment stopping the coinage of rupees. Then only gold—made legal tender, at a suitable ratio with the rupee—will become a part of Indian currency.

That the stoppage of rupee coinage is a sufficient remedy is amply corroborated by the now forgotten episode in the history of Indian currency during the years 1898-1902. Within the short space of a year and a half after gold had been made legal tender the Hon. C. E. Dawkins, notwithstanding the fact that there was no gold Mint, was able, in his Budget speech in March, 1901, to observe :—

> "India has at length emerged from a period of transition in her currency, has reached the goal to which she has been struggling for years, has established a gold standard and a gold currency, and has attained that practical fixity in exchange which has brought a relief alike to the private individual and to the Government finances."*

So great was the plethora of gold that Mr. Dawkins further remarked †:—

> " …… We have been nearly swamped …… by gold ……."

The transformation in the currency position which then took place was graphically described by Lord Curzon, the then *Viceroy,* in the following *words*‡ :—

> "Mr. Dawkins …… has successfully inaugurated the new era under which the sovereign has become legal tender in India, and stability in exchange has assumed what we hope may be a stereotyped form. This great change has been introduced in defiance of the vaticinations of all the prophets of evil, and more especially of the particular prophecy that we could not get gold to come to India, that we could not keep it in our hands if we got it here, but that it would slip so quickly through our fingers that we should have even to borrow to maintain the necessary supply. As a matter of fact, we are almost in the position of the mythological king, who

* *Financial Statement,* 1900-1, p. 14.

† *Ibid.,* p. 19.

‡ *Ibid, p. 167.*

prayed that all he touched might be turned into gold, and was then rather painfully surprised when he found that his food had been converted into the same somewhat indigestible material. So much gold, indeed, have we got, that we are now giving gold for rupees as well as rupees for gold, i.e. we are really in the enjoyment of complete convertibility—a state of affairs which would have been derided as impossible by the experts a year ago."

Compare this state of affairs in 1900-1 with that found to exist in 1910-11, for instance. Speaking of the currency situation as it was in that year, the Hon. Sir James (now Lord) Meston, observed*:—

"We have passed through many changes in currency policy and made not a few mistakables. but the broad lines of our action and our objects are clear and unmistakable, and there has been no great or fundamental sacrifice of consistency in progress towards our ideal. Since the Fowler Committee that progress has been real and unbroken. There is still one great step forward before the ideal can be reached. We have linked India with the gold countries of the world, we have reached a gold-exchange standard, which we are steadily developing and improving. The next and final step is a true gold currency. That, I have every hope, will come in time......"

Leaving aside for the moment the extenuatory remarks of the speaker, the fact remains that in 1900 India had a gold currency. But, taking stock of the position at the end of 1910, it had ceased to have it. What is it that made this difference ? Nothing but the fact that between 1893-1900 no rupees were coined, but between 1900-1910 the number of rupees coined was enormous. During the first period the inducement to coin rupees was very great indeed. The exchange was not quite stable, and the Government had still to find an increasing number of rupees to pay for the "Home Charges." And an Honourable Member† of the Supreme Legislative Council actually asked :—

"Is there any objection to the Government working the Mints on their own account ? Considering the low value of

* *Financial Statement,* 1910-11, p. 346.

† This was no other than the Hon. Fazulbhai Vishram, the well-known financier of Bombay. Cf. his spech in the *Financial Statement,* 1894-95, p. 96

silver and the great margin between the respective prices of bullion and the rupee, would not Government by manufacturing rupees for itself make sufficient profit to meet at least a substantial portion of the present deficit ? It seems to me to be a legitimate source of revenue and one capable of materially easing our finances."

But Sir James Westland, who was then in charge of the finances of India, replied*:—I

"I must confess to a little surprise in finding the proposal put forward by one of the commercial members of your Excellency's Council that we should buy silver at its present low price, and coin it for issue at the appreciated value of the rupee ...... I shall certainly refuse myself to fall into this temptation."

Again, 1898, when some of the followers of Mr. Lindsay desired that Government should coin rupees to relieve the monetary stringency, Sir James Westland remarked†:—

" ......in our opinion the silver standard is now a question of the past. It is a case of *vestigia nulla retrorsum*. The only question before us is how best to attain the gold standard. We cannot go back to the position of the open Mints. There j are only two ways in which we can go back to that position, We can either open the Mints to the public generally, or we can open them to coinage by ourselves. In either case what it means is that the value of the rupee will go down to something approaching the value of silver. If the case is that of opening the Mints to the public, the descent of the rupee will be rapid. If it is that of opening only to coinage by the Government, the descent of the rupee, may be slow but it will be no less inevitable."

The Hon. C. E. Dawkins was equally emphatic in his denunciation of the project of Government coining rupees. When he was tempted to acquiesce in the proposal by holding out the prospects of a profit from coinage, he replied‡:—

"I think I ought ..... to beg my hon. friend not to dangle

* *Financial Statement,* 1894-95, p. 123. † *Ibid.,* 1898-9, p. 169.

‡ *Ibid.,* 1900-1, p. 163.

the profits on silver too conspicuously before the eyes even of a most virtuous government. Once let these profits become a determining factor in your action, then good-bye stability."

Another instance of the Government's determination not to coin rupees is furnished by inquiring into the reasons as to why it is that the Government has never assumed the responsibility of selling council bills in indefinite amount and at a fixed rate. The Chamberlain Commission argued that the Government cannot undertake such a responsibility because it cannot hold out for a fixed rate, and may have to sell at any rate even lower than par. This is true so far as it is a confession of a position weakened by the Government's folly of indulging in excessive rupee coinage. But this was certainly not the explanation which the Government gave in 1900 when it was first asked to assume that responsibility. The Government knew perfectly well that to keep on selling bills indefinitely was to keep on coining rupees indefinitely. They refused to assume that responsibility because they did not want to coin rupees. That this was the original reason was made quite plain by the Hon. Mr. Dawkins,* who reminded those who asked Government to undertake such a responsibility that

> "the silver coin reserve of Government in consequence rapidly neared a point at which it was impossible to continue to meet unlimited transfers [i.e. council bills]. Therefore the Secretary of State decided to limit the demands by gradually raising the rate, thus meeting the most urgent demands, and weeding out the less urgent, while warning those whose demands were not so urgent to ship gold to India. No other course was practicable. The liability of the Secretary of State to keep the tap turned on indefinitely at 1s. 4 5/32d. has been asserted. But I cannot see that any positive liability exists, and I wonder if those who assert its existence would have preferred that the stability of our currency (whose situation they are well able to appreciate and follow) should have been affected by the reserve of rupees being dangerously reduced ?" [and which could not be augmented except by coining more rupees].

Just at the nick of time, when the ideal of a gold standard with a gold currency was about to be realized, there came on

* Cf. his Budget speech, *Financial Statement,* 1900-1, p. 27.

the scene Sir Edward Law as the Finance Minister of India and tore the whole structure of the new currency to pieces with a piratical nonchalance that was as stupid as it was wanton. His was the Minute of June 28, 1900, which changed the whole course of events.* In that Minute coccurs the following important passage ;—

> "15. As a result of these considerations it must, I think, be admitted that the amount of gold which can safely be held in the currency reserve must for the present be regulated by the same rules as would guide the consideration of the amount by which the proportion invested in government securities could be safely increased. Pending an increase in the note circulation ...... or some other change in existing conditions, I am of opinion that a maximum sum of approximately £ 7,000,000 in gold may now be safely held in the currency reserve. I should not, however, wish to be bound absolutely to this figure, which is necessarily an arbitrary one, and particularly I should not wish any public announcement to be made which might seem to tie the hands of the Government in the event of circumstances, at present unforeseen, rendering its reduction hereafter desirable."

In outlining this Minute, which with modifications in the maximum gold to be held in the currency reserve, remains the foundation of the currency system in India, the author of it never seems to have asked for one moment what was to happen to the ideal of a gold standard and a gold currency? Was he assisting the consummation of the gold standard or was he projecting the abandonment of the gold standard in thus putting a limit on the holding of gold? Before the policy of this Minute was put into execution the Indian currency system was approximating to that of the Bank Charter Act of 1844, in which the issue of rupees was limited and that of gold unlimited. This Minute proposed that the issue of gold should be limited and that of rupees unlimited—an exact reversal to the system of the Bank Suspension period. In this lies the great significance of the Minute, which deliberately outlined a policy of substituting rupees for gold in Indian currency and thereby defeating the ideal held out since 1893 and well-nigh accomplished in 1900.

* For a copy of the Minute and the correspondence thereon, *see* Appendix V to the *Interim Report of the Chamberlain Commission,* Cd. 7070 of 1913.

If Sir Edward Law had realized that this meant an abandonment of the gold standard, perhaps he would not have recorded the Minute, but what were the considerations alluded to in the Minute which led him thus to subvert the policy of a gold standard and a gold currency and put a limit on the gold part of the currency rather than on the rupee part of the currency ? They are to be found in a despatch, No. 302, dated September 6, 1900, from the Government of India, which says :—

"2. …… the receipts of gold continued and increased after December last. For more than eight months the gold in the currency reserve has exceeded, and the silver has been less, than the limits suggested in the despatch of June 18. By the middle of January the stock of gold in the currency reserve in India reached £5,000,000. The proposal made in that despatch was at once brought into operation ; later on we sent supplies of sovereigns to the larger District Treasuries, with instructions that they should be issued to anyone who desired to receive them in payments due or in exchange for rupees ; and in March we directed the Post Office to make in sovereigns all payments of money orders in the Presidency towns and Rangoon, and we requested the Presidency Banks to make in the Presidency towns and Rangoon payments on Government account as far as possible in sovereigns. These measures were taken, not so much in the expectation that they would in the early future relieve us of any large part of our surplus gold, but in the hope that they would accustom the people to gold, would hasten the time when it will pass into general circulation in considerable quantities, and by so doing, would mitigate in future years the difficulties that we were experiencing from the magnitude of our stock of gold and the depletion of our stock of rupees.

"3. In order to meet these difficulties and to secure, if possible, that we should have enough rupees for payment to presenters of currency notes and tenderers of gold, we began to coin additional rupees ……

* * * * *

"14. We may mention that we have closely watched the result of the measures described in paragraph 2. The issues of gold have been considerable; but much has come back to us through the Currency Department and the Presidency banks. The Comptroller-General estimated the amount remaining in circulation at the end of June at over a million and a quarter out of nearly two millions issued up to that time ; but there are many uncertain data in the calculation. We are not yet able to say that gold has passed into use as money to any appreciable extent.

"15. It is very desirable that we should feel assured of being able to meet the public demand for rupees, as indicated by the presentation of currency notes and gold. We therefore strongly press on your Lordship the expediency of sanctioning the above proposal for further coinage [of rupees];...

* * * * *

"17. But we do not wish our proposal to be considered as dependent on such arguments as those just stated. We make it primarily on the practical ground that we consider it necessary in order to enable us to fulfil an obligation which, though we are not, and do not propose to be, legally committed thereto, we think it desirable to undertake so long as we can do it without excessive inconvenience ; namely, to pay rupees to all tenderers of gold and to give rupees in encashment of currency notes to all who prefer rupees to sovereigns."

The arguments advanced in this statement of the case for coining rupees are a motley lot. At the outset it is something unheard of that a Government which was proceeding to establish a gold standard and a gold currency should have been so very alarmed at the sight of increased gold when it should have thanked its stars for such an early consummation of its idea. Leaving aside the psychological aspect of the question, the government, according to its own statement, undertook to coin rupees for two reasons : (1) because it felt itself obliged to give rupees whenever asked for, and (2) because people did not want gold. What force is there in these arguments ? Respecting the first argument it is difficult to understand why Government should feel itself obliged to give rupees. The obligation of a debtor is to pay the legal-tender money of the country. Gold had been made legal tender, and the Government could have discharged its obligations by paying out without shame or apology. Secondly, what is the proof that people did not want gold ? It is said that the fact that the gold paid out by Government returned to it is evidence enough that people did not want it. But this is a fallacy. In a country like India Government dues form a large part of the people's expenditure, and if people used that gold to meet those dues—this is what is meant by the return of gold to Government—then it is an evidence in support of the contention that people were prepared to use gold as currency. But if it is true that people do not want gold, how does it accord with the fact that Government refuses to give gold when people make a demand for it ? Does not the standing refusal imply that there is a standing demand ? There is no consistency in this mode of reasoning. The fact is, all this confused advocacy is employed to divert attention from the truth that the Government was anxious to coin rupees not because people did not want gold, but because Government was anxious to build a gold reserve out of the profits of additional coinage of rupees. That this was the underlying motive is manifest from the minute of Sir Edward Law. That the argument about people disliking gold, and so forth, and so forth, was only a cover for the true motive comes out prominently from that part of the Minute in which its author had argued that:—

> "16. If it be accepted that £ 7,000,000 is the maximum sum which, under existing conditions, can be held in gold in the currency reserve, in addition to the 10 crores already invested, it is evident that such assistance as can be obtained from manipulating the reserve will fail to provide the sum in gold which it is considered advisable to hold in connection with the maintenance of a steady exchange. So far no authority has ventured to name a definite sum which should suffice for this purpose, but there is a general consensus of opinion, in which I fully concur, that a very considerable sum is required. The most ready way of obtaining such a large sum is by gold borrowings, but the opinion of the Currency Commission was strongly hostile to such a course, and the question therefore remains unanswered : How is the necessary stock of gold to be obtained ?
>
> "17. I do not presume to offer any cut-and-dried solution of this difficult problem, but I venture to offer certain suggestions which, if adopted, would, I believe, go

a considerable way towards meeting the difficulty. I propose to create a special 'Gold Exchange Fund,' independent of, but in case of extraordinary requirements for exchange purposes to be used in conjunction with the gold resources of the currency reserve. The foundation of this fund would be the profit to be realized by converting into rupees the excess above £ 7,000,000 now held in gold in the currency reserve."

Can there be any doubt now as to the true cause for coining rupees ? Writers who have broadcasted that rupees were coined because people did not want gold cannot be said to have read correctly the history of the genesis of the exchange standard in India.

But was Sir Edward Law the evil genius who turned a sound system of currency into an unsound one by his disastrous policy of coining rupees ? Opponents of the Government as well as its supporters are all agreed* that this was a departure from the ideal of the Fowler Committee. In what precise respect the Government has departed from the recommendations of the Fowler Committee has, however, never been made clear anywhere in the official or non-official literature on the subject of Indian currency. What were the recommendations of the Fowler Committee ? It is usually pointed out, to the shame of the Government of India, that the Fowler Committee had said (it is as well to repeat it):—

"We are in favour of making the British sovereign a legal tender and a current coin in India. We also consider that, at the same time, the Indian Mints should be thrown open to the unrestricted coinage of gold …… Looking forward as we do to the effective establishment of a gold standard and currency based on the principles of the free inflow and outflow of gold, we recommend these measures for adoption."

That is true. But those who have blamed the Government have forgotten that same Committee also recommended that—

"The exclusive right to coin fresh rupees must remain vested in the Government of India; and though the existing stock of rupees may suffice for some time, regulations will ultimatedly be needed for providing such additions to the

* Even the Chamberlain Commission said that the Government had denarted from the ideal of the Fowler Committee.

> silver currency as may prove necessary. The Government should continue to give rupees for gold, but fresh rupees should not be coined until the proportion of gold in the currency is found to exceed the requirements of the public. We also recommend that any profit on the coinage of rupees should not be credited to the revenue or held as a portion of the ordinary balance of the Government of India, but should be kept in gold as a special reserve, entirely apart from the paper-currency reserve and the ordinary Treasury balances" [and be made freely available for foreign remittances whenever the exchange falls below specie point.]

Taking the two recommendations of the Committee together, where is the departure ? What the Government has done is precisely what the Committee had recommended. That the Government of India or the Chamberlain Commission should have admitted for a moment that there was a departure is not a little odd, for the very despatch which conveyed the Minute of Sir Edward Law to the Secretary of State opens with remarks which show that Government was earnestly following the recommendations of the Fowler Committee. It runs:—

> "In our despatch No. 301 of August 24, 1899, we wrote with reference to paragraph 60 of the Report of the Indian Currency Committee [i.e. the Fowler Committee], that any profit made on rupee coinage should be held in gold as a special reserve, has not escaped our attention ; but the need for the coinage of additional rupees is not likely to occur for some time, and a decision on this point may be conveninently deferred."

What Sir Edward Law did was to carry that recommendation into effect when the occasion arrived. In view of this it is useless to belabour the Government of India if the ideal of a gold standard with a gold currency was defeated by the coinage of rupees. But, even though the Government has in ignorance taken the blame on itself, it cannot be rightly thrown at its door. If the project has been defeated by the coinage of rupees, the question must be referred to the Fowler Committe. Why did the Committee permit the coinage of rupees ? There is no direct answer, but it may be guessed. It seems the Committee first decided that there should be a gold standard and a gold currency as desired by the Government of India. But then they seemed to have been worried by the question whether in the ideal they had sketched they had made enough provision for the maintenance of the gold value of the rupee. In the view of the opponents of the Government of India the rupee ought to have been made either convertible as a bank note or a limited legal tender as a shilling. The Committee rejected both these demands as being unnecessary. Stating their ground for refusing to reduce the rupee to the status of a shilling, the Committee argued*:—

> "It is true that in the United Kingdom the silver currency has a fixed limit of 40s., beyond which it cannot be used to pay a debt ...... While it cannot be denied that 40s. limitation tends to emphasize and maintain the subsidiary character of our silver coinage, yet the essential factor in maintaining those tokens at their representative nominal value is not the statutory limit on the amount for which they are a legal tender in any one payment, but the limitation of their total issue. Provided the latter restriction is adequate, there is no essential reason why there need be any limit on the amount for which tokens are a tender by law."

Regarding the necessity for convertibility the Committee observed†:—

> "Outside the United Kingdom there are two principal instances of countries with a gold standard and currency, which admit silver coins to unlimited tender. These countries are France and the United States of Amercia. In France the five-franc piece is an unlimited tender and for all internal purposes is equivalent to gold. The same remark applies in the United States to the silver dollar ...... Both in France and the United States the Mints are now closed to the coinage of silver coins of ultimated tender. In neither country are such coins convertible by law into gold ; in both countries alike they are equivalent to gold for all internal purposes. For international payments, so far as specie is concerned, France and the United States depend ultimately on the international medium of exchange, which is gold. In the last resort, it is their gold which, acting through the foreign exchanges, maintains the whole mass of their currency at its nominal value for internal purposes.

* Report, par. 56.

† Report, pars. 57-60.

> "The position of the currency question in India being such as we have explained in the preceding paragraph, we do not consider it necessary to recommend a different policy in the case of that country from that which is found sufficient in France and the United States, by imposing a legal obligation on the Government of India to give gold for rupees, or, in other words, to substitute the former for the latter on the demand of the holders. This obligation would impose on the Government of India a liability to find gold at a moment's notice to an amount which cannot be defined beforehand, and the liability is one which, in our opinion, ought not to be accepted."

Although confident of its opinions, the Committee was considerably impressed by those who, owing to the large quantity of rupees in circulation, entertained doubts

> "whether the mere closing of the Indian Mints to silver would in practice be attended with such a restriction of the rupee currency as would make the rupee permanently exchangeable for gold at a fixed rate."

So much was the Committee shaken by these doubts that it admitted that*

> "the forces which affect the gold value of the rupee are complicated and obscure in their mode of operation, and we are unable, therefore, to say positively that the mere closing of the Mints to silver will, in practice, lead to such a limitation of the rupee currency, relatively to the demands for it, as will make the rupee permanently exchangeable for gold at a fixed rate."

As a remedy against such a contingency the Committee thought that the Government of India should accept the obligation of convertibility of the rupee into gold for foreign remittances whenever the rupee fell below specie point. Having hit upon such a simple solution the next question was how was the Government to get its gold reserve ? Borrowing for the purposes of such a gold reserve was one way of doing it. But that project was somehow unpalatable to the Committee. Perhaps because

* Report, par. 58.

it had admonished the Government, in another part of its Report,* to

> "husband the resources at their command, exercise a resolute economy, and restrict the growth of their gold obligations,"

or because it was a vicious principle to borrow

> "for the establishment or the maintenance of a gold standard,"†

the Committee was averse to the proposal for gold borrowing. But if a gold reserve was not to be built up by borrowing, how could it be built up otherwise ? The Committee seems to have been considerably troubled over the problem of finding an alternative mode of raising a reserve until some member of it, probably at a moment when his intellect was rather weak, proposed 'Well, why not allow the Governments to coin rupees ? If that were allowed it could easily build up a gold reserve without having to borrow, and can then discharge the obligation of convertibility for foreign remittances.' So innocuous seemed the proposal that the Committee wholeheartedly adopted and incorporated it into its Report with a certain sigh of relief that is unmistakable from the firm language in which it was expressed.

This may or may not be a correct interpretation of the reasoning employed by the Committee in permitting the Government to coin rupees. But the fact remains that the Committee did not realize what was involved in that recommendation. First of all, what was to happen to the gold standard and currency if the coinage of rupees was to go on ? In this regard is it possible to have more respect for a Committee which lays down on the one hand the ideal of a gold standard and currency, and permits on the other hand the coinage of rupees, than Bagehot felt for the Directors of the Bank of England, who on March 25, 1819, passed that notorious resolution :—

> "That the Court cannot refrain from adverting to an opinion, strongly insisted upon by some, that the Bank has only to reduce its issues to obtain a favourable turn in the Exchanges, and a consequent influx of the precious metals; the Court conceives it to be its duty to declare that it is unable to discover any solid foundation for such a sentiment."

* Report, par. 70.

† *See* the Reservations to the Report by Campbell Holland and Muir Report, p. 27.

If the opinions of the Directors were classical for their nonsense, are those of the Fowler Committee less so ? Is there any difference between them ? Bagehot, in commenting upon the sentiments embodied in the resolution, not dissimilar to the recommendations of the Fowler Committee, urged some extenuating circumstances which compel us to forgive the Bank Directors their nonsense. The Directors lived in an age when economic reasoning was in a confused state ; nor were they anxious for the "influx of gold," being perfectly satisfied with paper. None of these circumstances can excuse the nonsense of the Fowler Committee. They framed their recommendations at a time when the contrary of what the Bank Directors had held was an established axiom. Besides, it cannot be said that they were not anxious for the influx of gold into the Indian currency. On the other hand, that was just the thing they were looking forward to. Consequently, they should have carefully weighed their words and allowed nothing that was inconsistent with their main object. In not paying sufficient heed to that elementary principle known as Gresham's Law, the Committee not only made a fool of itself but defeated the principal object it had set forth in the earlier part of its Report.

Secondly, was it necessary to endow the Government with a power to coin rupees ? What was the nature of the problem the Committee was called upon to decide ? Let us re-state it. The Herschell Committee,* by way of modifying the proposals of the Government of India, submitted to it in 1892, had introduced a proviso by which the Mints, although closed to the public, were to remain open to the Government for the coinage of rupees—a proviso which, by the way, reveals that after all that imposing survey the Committee remained supremely ignorant of the secret why, in the monetary systems it investigated, the currency maintained its parity with gold with little or no gold. If it had understood that it was limitation of issue which maintained this parity it would not have introduced the proviso which it did. However pernicious the proviso, the Committee must be excused for that indiscretion, for it was afraid that owing to the Mint closure there might be a sudden contraction of currency, and as it had not made gold general

* *See* Chap. IV, *supra,* p. 471.

legal tender it had to provide for the necessary addition to the currency, and this it thought could best be done by Government having the power to coin rupees. Fortunately for the Government the occasion for an addition did not arise for some time, till 1898,and there was therefore no necessity to exercise, that power. But when such an occasion did arise the Government, as was pointed out before, refused to exercise that power—and held to the view that the additions to Indian currency, instead of being made by further coinage of rupees, should be made by an influx of gold. The government was the strongest opponent of Mr. Lindsay, who was then agitating that it was safe and economical to compel it to make the necessary additions by under taking to coin rupees. It was to adjudicate in the dispute between the Government of India on the one hand and Mr. Lindsay on the other, the former desiring additions by gold coinage and the latter by rupee coinage, that the Fowler Committee was called into being. If the Government was anxious to add to the currency by coining more rupees rather than by the influx of gold, there was no necessity to appoint the Fowler Committee, Such a power had already been given to it by the Hershell Committee. It was because the Government did not want to exercise that ill-charged power that an appeal to a new Committee became necessary. Faced with this immediate problem of how best to expand the currency in relief of monetary stringency, the Committee had solved it in one part of its Report by prescribing that gold should be made legal tender, so that any debtor who was unable to find rupees could have the option of paying his creditors in gold. If gold was allowed to be the general medium of exchange, was not the proposal to coin rupees a superfluous one, quite uncalled for?

Thirdly, could the proposal to coin rupees as a means of building up a gold reserve be justified as calculated to maintain the value of the rupee ? The one thing essential to the maintenance of the value of the rupee was a limitation on its issue. The, Committee talked in a very learned manner about the shilling as being maintained in value in consequence of a limitation in its issue. But did it understand how the shilling was maintained limited in quantity ? If it is true that it is not the limit on legal tender, but the limit on the total volume, that maintains the value of the shilling, why is not the shilling issued in unlimited quantities ? The manufacture of the shilling is profitable in the same way as is the manufacture of the rupee. Why does not the British Government coin it in unlimited quantities ? Only because shillings cannot be paid out in unlimited quantities ? If the Government could pay its Chancellors of Exchequer, Cabinet Ministers, and the hosts of officials and clerks, and if they in turn could pay their grocers, milkmen, brewers, and butchers in shillings, there could be nothing to prevent the over-issue of shillings. But it is because nobody can pay out shillings in unlimited quantities that nobody will have them in unlimited quantities. It is the absence of a wholesale market, so to say, due to a limit on legal tender, that stops the Government from indulging in the over-issue of shillings. The Committee was therefore wrong in arguing that the limit on legal tender had nothing to do with the maintenance of the value of the shilling. On the other hand, if limitation of issue is the prime condition which maintains the value of a token coin, one means of making such a limit effective is to put a limit on its legal tender.

With regard to its views on convertibility, its reasoning was equally confused. To say what was sufficient for France and America should be sufficient for India, was like the blind leading the blind. It was entirely erroneous to argue that it was not convertibility but their gold

> "which acting through the foreign exchanges, maintains the whole mass of their currency at its nominal value for internal purposes."

Quite the contrary. France and America did not need convertibility to protect their currency because the silver franc and the silver dollar were absolutely limited in quantity. Indeed, far from being protected by the influx of gold, the limitation of isue not only maintained their value, but permitted the retention of whatever gold there was in those countries. Now, the Committee, instead of venturing into long-winded and pointless disquisitions, should have insisted that there was no necessity either to prescribe a limit of tender or convertibility with regard to the rupee, so long as there were other ways of restricting its over-issue. Limitation of legal tender or convertibility can be said to be essential only because they are the means of bringing about a limitation of issue, and if the requisite limitation of issue was provided for in other ways, the purpose for which convertibility or limitation of legal tender were asked for was accomplished. Now, was not the closing of the Mints a sufficient limitation on the volume of rupees ? Indeed, if the closing of the Mints was not an effective limitation on the issue of rupees, what else could have been ? Was not the closing of the Mints the same thing as regulating the currency on the principle of a fixed-issue system so well known in the matter of regulating paper currencies ? That it was, could hardly be denied. That being so, the only question was whether the volume of rupees already in circulation was distinctly less than the minimum amount of legal-tender money ever necessary for the internal circulation of the country. The Government of India had forseen the volume of rupees in circulation becoming in excess of such a minimum and had accordingly provided against it. In their despatch of March 3, 1898, outlining their plans, the Government observed:—

> "9……… We know now that one of the main reasons of this failure [to maintain the exchange value of the rupee] is that our rupee circulation had before the closing of the Mints been increased to such an extent that it fully, and more than fully, supplied all the demands of trade, and allowed no room for any further addition in the form of gold…… The necessary condition of a fixed rate of exchange between two countries is that, when the currency of one of them becomes redundant as compared with that of the other, the redundancy may be relieved by the withdrawal, for a time, of the excess coin, and we wish, therefore, to reach the condition in which our circulating medium... is not composed wholly of silver coin which has no equal value outside the country, but contains also a margin of gold which is capable of being used elsewhere as coin, and will therefore in natural course flow to where it is most wanted. Our total rupee currency is estimated to be at present somewhere about 120 crores, to which we have to add 10 crores of fiduciary circulation of currency notes.
>
> "10. It is impossible with any exactness to say, and it can only be ascertained by actual experience, by how much this rupee circulation has to be decreased in order to remove its redundancy. ……But some considerations point to the amount being within quite manageable limits. For example, there are twenty-four crores, more or less, of currency notes in circulation, including the amounts held in our Treasuries. If we could imagine that amount of circulation at present

existing in the form of currency notes suddenly converted into £16,000,000 in gold, it seems impossible that Indian trade should be able to get on without having part at least of that amount held in actual circulation, in other words, it would not be possible for that amount of gold coin to be remitted out of the country without the value of the rupee being forced up to a point which would arrest the stream of export. If this is the case, twenty-four crores of rupees is the outside limit of the amount it might be necessary to convert into gold coin in order to introduce a stable exchange of 16d., accompanied by an actual (active or inactive) circulation of gold at that comparative value: and it is more than probable that the amount required may really fall far short of this.

"11. The mere reduction of circulation might be carried out in the same way in which it was effected in 1893, namely, by abstaining from withdrawing council bills, until we have an accumulation of, say, twenty crores in excess of our ordinary balances. But this procedure would be both costly and, as we believe, ineffective ; in the first place the permanent locking up of twenty crores would cost us the interest on that amount, or on the amount of gold borrowed in England during the suspension of drawings, and in the second place the existence of this acumulation of silver coin would be a perpetual menace to the exchange market, and would entirely prevent any confidence in the future of the rupee. We must not only withdraw the amount from circulation, but we must show by the method we adopt that our intention is that it should cease to exist in the form of coin, and that its place, as coin, is to be taken by gold. Our proposal is therefore to melt down existing rupees, having first provided a reserve of gold [by borrowing] both for the practical purpose of taking the place of the silver and in order to establish confidence in the issue of our measures."

At the time the Committee reported the volume of rupees in circulation was not redundant, as was proved by the fact that exchange was rising and gold was flowing in. That the closing of the Mints had therefore brought about an effective limit is beyond dispute, and was even admitted by the Committee.* But

* Report, p. 17.

supposing that the closing of the Mints did not constitute an effective limitation on the volume of rupees in circulation, what was the remedy ? Was the plan of a gold reserve to assure convertibility for foreign remittances calculated to promote that object if the gold reserve was to be got by coining more rupees ? If the limitation of rupees was going to maintain their value, as it did the value of the shilling, was the permission to add to the volume of rupees which the Committee feared was overabundant if not redundant, for the sake of a gold reserve, designed to limit their volume ?

It is difficult to read the report of the Fowler Committee without exasperation. The permission to coin rupees was mischievous in every way. It was destructive of a true gold standard ; it was not wanted as a relief against monetary stringency, and was calculated to lower the value of the rupee. If it was anxious for a gold standard and currency, as it undoubtedly was, it should have absolutely stopped the coinage of rupees and suppressed the notification holding the government ready to give rupees for gold. In failing to do that it not only deprived the country of a sound system, but actually, albeit unwittingly, helped to place the entire Indian currency, including paper currency, on the basis- of an inconvertible rupee. Few people seem to be alive to the precise significance of that pernicious proviso introduced by the Herschell Committee, and remorselessly upheld by the Fowler Committee, that the government shall always be ready to give rupees for gold, but there can be no doubt that in the absence of a counter-proviso, requiring Government to give gold for rupees, the proviso is simply a cover for an authority to the Indian Government to issue inconvertible rupee currency of unlimited legal tender in the same way as the bank restriction was for an authority to the bank of England to issue inconvertible notes in unlimited quantities. The first step in the right direction would be to scrap that Report and make a speedy return to the safe and sound proposals of the Government of India as outlined in the despatch referred to above. The primary condition is to stop the coinage of rupees and not merely close the Mints to the public. Whether it would be necessary to melt a portion of the rupees depends upon what gold value it is desired the rupee should have. Once the total contraction of the rupee is settled upon and all further coinage is stopped, India will be in a position to have an effective gold standard based on a free inflow and outflow of gold. There will be no necessity to reduce the rupee in legal tender and provide for its convertibility. Its value would be maintained intact by sheer force of its quantity being limited, provided the quantity in circulation has been reduced so far as to be always below the minimum demand.

Supporters of the existing system of rupee currency have ever since its inauguration held out that the currency is economical and secure. Its claim for security, both in terms of gold and commodities, has been tested, and the grounds of it have been analysed in the course of this and previous chapters, wherein is demonstrated how very much wanting it is in the essentials that go to make up a secure currency. We must now endeavour to assess whether it is economical, for if it were really so, then that might be a point of some value against its opponents. We must therefore scrutinize the economy effected by the rupee currency.

Kemmerer says,*

> " A convertible money finds its *raison d'etre* largely in the fact that it economizes the precious metals, and makes possible a saving to the community. If paper money or token money are substituted for primary money, their substitution ruduces the demand for the precious metals by the difference between the amount of metal used in the token money introduced plus that contained in the primary money required for the redemption fund. This economy of the precious metals results in an increased supply being thrown upon the market" [which supply goes abroad and into the arts and increases the non-monetary wealth of the country by an equivalent amount: the gold obtained for the metal economized represents a net gain to the community].

The same kind of gain, says Kemmerer, attaches to the use of inconvertible money, and even on a larger scale, because there is no necessity to use primary money even for a redemption fund, as there is when the money is convertible. Such views as these have led Prof. Keynes to opine that the Indian currency system is a marvel of economy, and that other

* Money and Credit Instruments in Relation to Prices, p. 63.

more advanced countries might usefully follow the lead. We will; not draw from this the uncharitable conclusion that either Prof. Kemmerer of Prof. Keynes would recommend that because an inconvertible paper currency is the most economical currency a country should adopt it without remorse. What we are concerned with is to find out whether the rupee currency is really economical. When the process by which the rupee comes into being is carefully analysed it becomes impossible to take seriously the plea that the Indian currency is economical. First of all, gold is tendered to the Secretary of State in London for his council bills, or gold is tendered to the Government of India in India in payment of taxes or otherwise. Out of this gold the Secretary of State buys silver and coins rupees. As the price of silver is below the ratio, there arises a difference between the cost price of the rupee and its selling price in gold. To the extent of this difference there is, of course, a gain. But this gain or profit on coinage, as it is called, is no benefit to society. It is a hoard, and to that extent represents a useless abstraction of wealth. If the profit is not to be used for any current purposes of society it is as well not to coin rupees. It is therefore obvious that so long as the profits are merely held apart from the revenue resources of India there is no economy in the rupee currency worth naming. From another standpoint the currency of India is a wasteful asset to society. Metallic currency is primarily a capital good representing a form of social investment. Consequently it is necessary to see that the capital value of the currency is maintained. It is a happy circumstance to note that the Government of India is not dead to this aspect of the question with regard to its paper-currency reserve, and has very recently instituted a depreciation fund for the preservation of its capital value.* Now, the considerations that apply to the paper currency should apply also to the rupee currency. Has the rupee currency maintained its capital value ? The gold part of it, called the gold-standard reserve, is invested in interest-bearing securities. Interest is no doubt an additional source of gain, but have the securities maintained their capital value ? Far from it. Turn to the rupee half of the currency. Has the bullion in the rupee maintained its capital value ? There have been endless

* Cf. the Speech of the Finance Minister, Mr. Hailey, on the Indian Paper Currency (Amendment) Bill, dated September 16, 1920, *S.L.C.P.,* Vol. LIX, pp. 308-9.

charts and diagrams drawn by playful economists in which the black line, showing the nominal value of the rupee, has remained up while the red line, showing the bullion value of the rupee, has gone down with the falling gold value of silver. But what does that mean ? Simply that the rupee is a wasting asset and is not worth at a later date what it cost to society when it was manufactured. Surely there was more economy in the project of the mad Chinaman who burnt his house to roast his pig than there is in the Indian rupee currency? The Chinaman's house must have been *very* old and uninhabitable. The same cannot, however, be said of this converting of gold money into silver money, because we know that silver is an inferior kind of investment to gold. Thus viewed, the currency is not in the least economical. It appears to be so because people look only to the rupee. But, adding the cost of the rupee currency to that of the gold-standard reserve, can it be said that India would have required more gold if she had a gold currency in place of a rupee currency ? Bearing in mind that with a fixed limit on the issue of rupees there can be no reason for a gold reserve, the only result of a stoppage of rupee coinage would be that gold, instead of being, as now, part reserved as a sinking fund and part transmuted into a rupee currency, would enter into circulation without being subjected to this baneful and wasteful process.

No more gold would be required in the one case than in the other. We can therefore conclude without fear of challenge that with a complete stoppage of rupee coinage Indian currency would be truly economical, prices would be more stable, and exchange secure, in the only way in which it can really be said to be secure, and the rupee, although inconvertible, will cease to be a problem, which it has been ever since 1873.

But will that be all the advantage to the country ? By no means. In drawing a moral from his comparison of the paper pound of 1797 with the paper pound of 1914, Prof. Cannan* points out that—

> "there can in these days be no doubt that the experiment of entrusting what no community should entrust to any institution, the power of creating money without limit, to the

* *The Paper Pound* 0/1797—1821, Introduction, p. xxxix.

Bank of England, compares very favourably with the modern plan of entrusting it to the Government itself or to a State bank completely under the control of the Government. In the comparatively short war of 1914-18 currencies 'not convertible at will into a coin which is exportable' were issued by Governments and Government banks in amounts compared with which the 100 per cent, increase in thirteen years, which made the Bullion Committee complain so vigorously in 1810,look absolutely trifling."

There was a time when it could have been said that this indictment did not apply to the Government of India. Few Governments could be said to have been so very anxious to wash their hands of the responsibilities involved in the management of a currency as the Government of India once was. In 1861, when the Government first undertook the issue of paper money in India, the anxiety it displayed was laudable. An impecunious Government, made prostrate by the heavy burdens of the Mutiny, should have welcomed the project of a paper currency as a source of profit. But so great was its sense of responsibility that the Government refused to be content with convertibility as a check on over-issue. One of the principal reasons why the desperate paper-currency scheme, which that straitened financier Mr. Wilson had devised in 1860 to find ways and means for improving the finances of India, was rejected was so well stated by his successor, Mr. Laing, that in these days of frenzied finance his remarks may as well be reproduced in full. He said* :—

"There was another important reason why he (Mr. Laing) thought that Sir Charles Wood's principle was the soundest. All parties were agreed that a paper currency ought to be identical with the metallic currency which it displaced. But the system of issuing against two-thirds of securities and one-third of specie, as was proposed by Mr. Wilson, would not always ensure this identity, and there was considerable risk that in times of buoyancy and speculation the circulation would be unduly extended. He thought that that was a point of considerable importance, because if we looked at what had taken place in India during the last three years, we should find a great increase in the wages of labour and the prices of commodities, which should warn us as to what the

* His speech on the Paper Currency Bill dated February 16, 1861, *S.L.C.P.,* Vol. VII, pp. 66—7.

> consequences might be if we were to accelerate the process already going on so rapidly by any artificial inflation of the currency. If you unnaturally stimulated the rise of prices by an over-issue of paper circulation you ran considerable risk of changing the healthy action of commerce into a feverish excitement which was sure to bring about a reaction. If we continued to go on as we had done for the last two or three years, the result would be that many articles of Indian produce might be driven out of the market by the competition of other countries, and he therefore thought that the Government ought to be exceedingly cautious how it took any step that might unduly accelerate the tendency to a general advance, as might be the case under the system of paper currency which to any considerable extent represented securities and not bullion. Such an advance might even reach a point seriously embarrassing to the Government if the general rise in the rate of wages and cost of living made the present scale of salaries and the pay of troops no longer adequate.* For these reasons he thought it by far the wisest course to adhere to the principle of paper currency adopted in England as laid down in Sir Charles Wood's despatch."

Not only was the Government anxious to put a limit on the issue over and above making it convertible, but it did not want to be vested with the legal authority to issue notes. In a despatch dated April 27,1859,† to the Secretary of State, the Government of the day observed :—

> " We believe that the convertibility of the notes on demand would not be a sufficient guarantee against over-issue. When once the paper currency is established in public confidence, the temptation to take dangerous advantage of this confidence will be very great in a time of difficulty, if the power of doing so is left in the hands of the Government of India alone. Restriction by law, either to a certain amount of issue absolutely, or to any amount relative to the balances in India, will, in our opinion, be necessary. We think that such a law ought to be passed by Parliament, and not by the Legislative Council of India."

*During the bank suspension period in England it is to be noted that the Army and the Navy were paid in gold, for fear of causing discontent.

†For a copy of it, see Commons Paper 183, of 1860, p. 1.

Equally sane was the view of the Government in 1876 with regard to the rupee currency. The Bengal Chamber of Commerce, it will be recalled, had urged upon the Government of India to close the Mints to the free coinage of silver, without opening them to the free coinage of gold—a project which practically meant that the Government should undertake the management of the rupee currency. The reply of the Government of India was a sharp rebuke. It declared*:—

> "8. . ...the Chamber invite the Government to take a measure calculated to enhance indenfinitely the value of the rupee by suspending the long-established legal right of all comers to have silver bullion manufactured upon uniform conditions under State supervision into legal-tender coin, and temporarily substituting a system of coinage at the discretion of the State......

* * * * *

> "11. It is essential to a sound system of currency that it be automatic. No man or body of men can ascertain whether at any particular moment the interests of the community as a whole require an increase or diminution of the currency; still less, how much increase or how much decrease is, at any moment, exactly needed. No Government which aspires to keep its currency in a sound condition would be justified in attempting that impossible task, or in leaving the community, even for a short interval, without a fixed metallic standard of value. Under an 'open coinage system' these things regulate themselves without official interference."

Now, compare with this the later pronouncements of the government with regard to the principles governing the paper and rupee currency respectively. During the war, when the Government of India resorted to the enlargement of paper issues, Honourable Members of the Supreme Legislative Council pointed out the effects it would produce on prices in India. But the late Hon. Sir Wm. Meyer, who as a Finance

* Resolution of the Government of India, relating to the Depreciation in the Value of Silver, dated September 22, 1870, Commons Paper 449 of 1893.

Minister piloted the Indian finances during the last war, in the course of a speech on the Indian Paper Currency (Amendment) Bill, dated September 5, 1917, replied*:—

> " The note circulation was sixty crores before the war and is now about a hundred crores. But the Hon. Mr. Sarma shivered at the idea of inflation. I may remind him that one of the accepted (!) doctrines of economists is that artificial inflation of paper currency only exists when the note circulation is not fully covered. Now we have covered every rupee of our note circulation. ...... in securities......" [How could there be an inflation ?]

The change in the Government's view with regard to the rupee currency is equally noteworthy. In 1908, when the exchange value of the rupee fell below par, the Government was reminded that it was the result of the excessive coinage of rupees. But although in 1876 the Government did not think it was possible for it to so increase and decrease the currency to suit the needs of commerce, yet in 1908 the Government advanced the opposite view. The Finance Minister, the Hon. Mr. Baker, in his reply, went on to argue†:—

> " In the first place the whole of the new coinage that we have undertaken during this period has been undertaken solely to meet the demands of trade. Not one single rupee has been added to the circulation except to enable us to meet these demands......"

Now, if it is dangerous to entrust a Government with the power to manage currency, how very dangerous is it to entrust it to the Government of India, which professes to carry out its trust on the basis of doctrines such as these ! No one is so ill-instructed in these days as to suppose that these are sound maxims. If security is enough, what need is there for convertibility ? If currency is issued only in response to trade demand, what fear is there of over-issue ? A Government acting on such a principle may well go on indefinitely increasing the currency without remorse. History abounds with instances of ruin caused by the management of currencies on such naive principles as these. ‡ Happily for the country, the paper currency profoundly

* S.L.C.P., Vol. LVI, p. 35.

† Cf. Financial Statement for 1908-9, p. 229.

‡ Cf. E. R. A. Seligman, Currency Inflation and Public Debts, New York, 1922, passim.

altered in its basis—one might almost say, tampered with—in 1920 by the Government is yet far away from currencies regulated on the theory enunciated by the Finance Minister. It is the rupee currency which has been, ever since the Mint closure, the chief source of danger to the welfare of the Indian people, particularly because of the principle governing its issue. Because that principle has the support, in itself a surprising thing, of such eminent authorities as Prof. Keynes,* Mr. Shirras.† and the Chamberlain Commission. ‡ it cannot alter the case for depriving the Government of this power of managing the rupee currency, for the principle is essentially unsound. The reason why the fallacy in the reasoning, that there could be no excess of rupees because of their being issued in response to trade demand, does not appear on the surface is due to the peculiar nature of money. Money is said to be wanted only because money has a purchasing power. That is no doubt true, but that does not quite explain why people so incessantly want money, even when they know that the value of money is so unstable. Indeed, if purchasing power was the only consideration we should not find such a desire for the current means of purchase. That desire can only be accounted for by the fact that money has a differential advantage over other goods, in that it has in the highest degree what Menger called the quality of saleability. That one can more often buy at a bargain than sell at a bargain is simply another way of stating that every one desires to hold his resources in the most saleable form of money. In this sense it is absolutely true that no more money can be issued than there is demand for. But from that it does not follow that there can be no over-issue of money purely for the currency needs at any given time. All money is acquired in response to trade or services, but all money is not retained in currency. Indeed, all commodities are exchanged for money, because money is supposed to bear the option of being used for non-monetary purposes. In the case of the rupee the option-of-use quality is non-existent. Consequently, although issued in response to trade demand, it remains in currency whether it is

* Op. Cit., p. 111. † Op. cit., p. 39. ‡ Report, par. 66.

wanted or not, and thus tends to bring about its depreciation. That such a depreciation is possible cannot be denied even by those who maintain that rupees are issued only in response to trade demand, otherwise why should they be so very anxious for an increase of the gold reserves of the country. But the danger to the rupee currency does not merely arise from the possibility of indiscretion on the part of the Government. Besides the Government there have been statesmen in India so interested in the welfare of their fellow-subjects that they have rebuked the Government on several occasions for not making the profits on rupee coinage available for the advancement of the moral and material progress of the country.* and in 1907 the profits on rupees were actually employed in the extension of railways. It must fill every one with horror and despair to contemplate the consequences sure to emanate from the manipulation of currency for such ends. Is it not time this source of danger and temptation be removed by depriving the Government of this power to manage the rupee currency ? But what is the means of bringing this about ? If it is desirable to do away with the management then convertibility is an insufficient measure; for with convertibility the rupee will still remain a managed rupee. Only the complete stoppage of rupee coinage will remove the governmental interference in the management of Indian currency; and it is this that we must therefore ask for.

Queer as it may seem, SAFETY LIES IN AN INCONVERTIBLE *Rupee with a fixed limit of Issue.*

●●●

* Such a sober politician as the late Mr. Gokhale took the lead in this matter. Cf. his speech in the Financial Statement for 1907-8, pp. 203-4 ; and the same indiscretion is repeated by Prof. V. G. Kale in his Currency Reform in India, 1919, p. 65.

INDEX

Book 4

BLANK

MISCELLANEOUS ESSAYS

Statement, Evidence, Reviews, Forewords etc.

BLANK

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.

BLANK

1

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.

●●

5

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.

6

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.

7

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.

●●

8

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

●●

---

* COMMODITY EXCHANGE

BY

P.G. SALVI, M.A.

THE CO-OPERATOR'S BOOK DEPOT, 9, BAKEHOUSE LAND, FORT, BOMBAY

1947

9

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

---

*SOCIAL INSURANCE AND INDIA
BY
Manohar R. Idgunji
Thacker & Co. Ltd., Bombay
First published, 1948

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

●●

BIBLIOGRAPHY

The books, reports and journals listed here include the works cited by the author in the Texts.

BOOK 2 : The Evolution of Provincial Finance in British India

Austin : *Jurisprudence,* Vol. 1 (4th Ed.).

Bryce, James : *The American Commonwealth;* 1910.

Buchanan, Dr. Francis : *Journey from Madras* Vol. II.

Burke, Sir Edmund : *Reflections on the Revolution in France.*

Calcutta Review, Vol. XVI, 1851.

Cowell, Herbert: *The History of the Constitution of Courts and Legislative Authorities in India,* Calcutta.

Dicey, A. V.: *Law of the Constitution,* (8th Ed.), 1915.

Fisher, H. A. L.: *The Empire and the Future,* 1916.

Frere Sir B.: *Minutes Papers* etc. on the extension of Financial Powers to Local Governments, 186C.

Ghose, N.: *Comparative Administrative Law,* 1918.

Halsbury : *Laws of England.*

Haughton, Benard : *Bureaucratic Government.*

Hearn : *The Government of England.*

Hendricks: *Parliamentary Committee on trade,* 1821.

Hunter W. W.: *Life of Mayo,* Vol. 1.

Kelkar N. C.: *The case for Indian Home Rule.*

Low, Sir Sidney : *The Governance of England,* 1914

Mansfield, Sir W. R.: *Minutes—Papers etc. on the extension of financial Powers to Local Governments,* 1967.

Martin M.: *Eastern India,* 3 Vols.

Raghuvaiyangar: *Progress of the Madras Presidency,* 1893.

Redlich J.: *Parliamentary Proccedure.*

Seligman, Prof. E. R. A.: *Essays in Taxation,* (8th Edition), 1913.

Strachey Hon. John : *The Adm. of the Earl of Mayo as Voceroy and Governor General of India*; Govt. Printing Press, Calcutta, 1872.

Strachey, Col. R.: *Note—in Finley's History of Provincial Financial Arrangements,* 1867.

Sykes, Colonel: *Past, Present and Prospective Financial Condition of British India,* Journal of the Royal Statistical Society, Vol. XXIII, 1859.

Temple, Sir Richard: Papers etc. on the extension of Financial Powers to Local Governments, 1867

Thornton : *(Ed.)—Statistical papers relative to British India,* 1953.

Travelyan : *System of transit and town duties in the Bengal Presidency.*

Venkatramaiah, Y.: Accountant's Manual, Madras 1866.

Vineberg : *Separation of State and Local Revenues in Canada.*

Webb, S.: *Grants-in-aid,* 1911.

West: *Sir Charles Woods' Administration.*

Report of the Civil Finance Committee on Native Establishment at the three Presidencies, 1830.

Report of the Royal Commission on Decentralisation in British India, 1909.

Report of the Committee on the affairs of the East India Company, 1852.

Report of the Committee on Indian Constitutional Reforms, 1918.

Report of the Joint Select Committee on the Government of India Bill, 1919.

Report of the Committee appointed by Secretary of State for India to advise on the question of the Financial Relations between the Central and Provincial Governments in India.

Report and Evidence of the Committee on East India Produce, 1846.

Royal Commission on Local Taxation in England, Vol. 1, Minutes of evidence, 1898.

Second Report of the Joint Committee appointed to revise the rules made under the Government of India Act, 1920.

Report of Major General Hancock, on the reorganisation of the Indian Army.

Report of the Civil Finance Committee on Native Establishment at the three Presidences.

House of Commons ; Return 33 of 1860, 307 of 1861, 326 of 1874, 202 of 1919.

Hansard's Parliamentary Debates, 1868.

Annual Financial Statements for the official years 1860-1 to 1873-4, Calcutta, 1873.

Financial Statements of Government of India, 1879-80, 1902-03

Annual Finance and Revenue Accounts of Government of India

Legislative Assembly Debates, Vol. III

Madras Manual: Vol.1.

Civil Account Code.

Moral and Material Progress report for 1882-3.

Parliamentary Papers 1859 : *Report of Major-General Hancock on the Reorganization of the Indian Army.*

BOOK 3 : The Problem of the Rupee

Andreades : *History of the Bank of England.*

Atkinson, F.: *The Indian Currency Question,* 1894.

Bagehot, Walter: *Articles on the Depriciation of Silver, London,* 1877.

Barbour, Sir David : *Standard of Value,* 1912

Cannan, Prof. : *Bullion Report-Money—Its connection with Rising and Falling Prices,* 3rd ed.
The Paper Pound of 1797, 1821.

Cassel: *Money and Foreign Exchange after* 1914, London 1922.

Chalmers, Robert: *History of Colonial Currency,* 1893.

Dalrymple A : *Observations on the Copper Coinage wanted in Circars,* London, 1794.

Davenpart: *The Economics of Enterprise,* 1913.

Dodwell, H. : *Substitution of Silver for Gold in South India ;* India Journal of Economics, 1921.
A Gold Currency for India, Economic Journal, 1911.
Report on the Enquiry into the Rise of Prices in India, 1914.

Doraiswami, S. V.: *Indian Currency,* Madras, 1915.

Dunning, H. M. : *Indian Currency,* 1898

Falkner, R. P.: *A Discussion of the Introgatories of the Monetary Commission of the Indianapolis Convention :* University of Pennsylvania, 1898.

Fetter F. A. : *The Gold Reserve : Its Function and its Maintenance,* Political Science Quarterly, 1896.

Fisher, Prof. : *Purchasing Power of Money,* 1911.

Purchasing Power of Money, 1911

Elementary Principles of Economics, 1912.

Forbes, F. B. :*The Bimetaliist,* 1897.

Foxwell (Ed.): *Investigations in Currency and finance,* 1884.
Bimetallism : Its Meaning and Aims
The (Oxford) Economic Review, 1893.

Gibbs : *A Colloquy on Currency,* 1894.

Gregiory, T. E.: *Foreign Exchanges.*

Harris : *An Essay upon Money and Coins.*

Harrison, F. C.: *The Past action of the Indian Government with regard to Gold;* Economic Journal, Vol. III.

Harton, Dana : *The Silver Pound,* 1887

Hauft, Ottomar: *Distribution of stock of Money in* different countries, Effingham, Wilson and Co., London, 1892.

Hawtrey, R. G. : *Credit and Currency,* 1919

Huges-Hallett Col.: *The Depreciation of the Rupee, London* 1887.

Jevons H. S. : *Money and Mechanism of Exchange,* 1890.
Theory of Political Economy, 1911.
Future of Exchange and Indian Currency, 1922.

Jervis, Captain : *Analytical Review of the Weights, Measures, and Coins of India,* Bombay, 1836.

Kaye (Ed.): *Memorials of Indian Government,* 1853.

Kelly, Dr. P.: *The Universal Cambist,* 1811.

Kemmerer, E. W.: *Modern Currency Reforms,* 1916.

Seasonal Variations in the New York Money Market, American Economic Review, 1911.

Money—Its connection with Rising and Falling Prices, 3rd Ed.

Keynes, Prof.: *Indian Currency and Finance.*

Recent Economic Events in India, Economic Journal, 1909.

Kirkady : *British War Finance,* 1921.

Kitchin, Joseph : *Review of Economic Statistics,* 1921.

Laughlin J. L.: *History of Bimetallism,* New York, 1886.

Lexix, Prof. W.: *The Present Monetary Situation, Economic* Studies of the American Eco. Associate, 1896.

The Agio on Gold and International Trade, The Economic Journal, 1895.

Liverpool Lord : *Treatise on the coins of Realm,* Reprint of 1880.

London A. C. B.: *How to meet the Financial Difficulties in India,* London 1859.

Madan : *Indian Journal of Economics,* Vol. III.

Marshall: *Contenperary Review,* 1887.

Remedies for Fluctnation of General Prices, Contemparory Review, 1887.

Martin, R. M.: *The Indian Empire,* Vol. I, 1856.

Mayo : *Price Movements and Individual welfare, Political Science Quarterly,* 1900.

Mitchell, W. C. : *The Rationality of Economic Activity;* Journal of Political Economy, Vol. XVIII, 1910.

The Role of Money in Economic Theory : American Economic Review (Supplement), Vol. VI, 1916.

Gold Prices and Wages under the Greenback Standard, 1908.

Muller, John : *Indian Tables,* Calcutta, 1836.

Nicholson, Prof. : *Money and Monetary Problem,* 1895.

Principles of Political Economy, 1897.

Paul, Kegan : *Money and the Mechanism of Exchange,* London, 1890.

Pierson, Prof. : *Principles of Economics.*

Porter, G. R.: *Progress of the Nation.*

Princep, J.: *Useful Tables,* Calcutta, 1834.

Probyn, Mr.: *Indian Coinage and Currency,* Effingham Wilson, London, 1897.

Ranade, M. G.: *Essays on Indian Economics.*

Ricardo David : *High Price of Bullion.*

Proposals for an Economical and Secure Currency.

Ross, H. M. : *The Triumph of the Standard,* Calcutta, 1909.

Ruding : *Annals of Coinage* 3rd Ed. Vol. 1.

Russell H. B.: *International Monetary Conference,* 1898.

Seligman, E. R. A.: *Currency Inflation and Public Debts,* New York, 1922.

Shirras : *Indian Finance and Banking.*

Shore, Sir John : *A Treatise on the Coinage of the Realm.*

Smith, Col. J. T. : *Silver and the India Exchanges,* Effingham Wilson, London, 1876.

Summner, Prof.: *A History of American Currency,* New York, 1874.

Taussig, F. W.: *Principles,* 1918.

Temple, Sir Richard : *General Monetary Practice in India,* Journal of the Institute of Bankers.

India in 1880.

Sir Charles Wood's Administration of Indian Affairs.

The Indian Statesman, 1884.

Venkateshwara, Prof. S. V. : *Moghul Currency and Coinage,* Indian Journal of Economics, 1918.

Violet, Thomas : *An Appeal to Caesar,* London, 1660.

Walker F. A. : *The Free Coinage of Silver,* The Journal of Political Economy, Chicago.

Money in its relation to Trade.

Walsh, C. M. : *Fundamental Problem in Monetary Science.*

Whitakar, A. C. : *Foreign Exchange, Appleton,* New York, 1920.

Wieser, F. : *Resumption of Specie payment in Austria-Hungary,* Journal of Political Economy, Vol. I.

Willis, H. P.: *History of the Latin Monetary Union,* Chicago, 1910.

The Vienna Monetary Treaty of 1857, Journal of Political Economy, Vol. IV.

Wilson, James : *Capital Currency and Banking,* 1847.

Report of the Famine Commission of 1880.

Report of the Royal Commission on Agricultural Depression in England, 1897.

Report of the Royal Commission on Gold and Silver.

Commons Paper C. 4868 of 1886, 495 of 1913, 449 of 1893.

44th Congress, 2nd Session, Senate Document No. 703.

Lords Paper 178 of 1876 ; 7 of 1894.

Report of the Select Committee on Depreciation of Silver, 1876.

Report of the Gold and Silver Commission, 1886.

Report of the Monetary Commission of the Indianapolis Convention, Chicago, 1898.

Report of the Delegates of the United States, Cincimati to the International Monetary Conference, 1881.

Report of the Commission on International Exchange, House of Representative Document, Washington, 1903.

Report of the India Delegation to the International Monetary Conference, 1882.

Report of the (First) of the Royal Commission on Gold and Silver, 1886.

Senate Executive Documents, 45th Congress, Washington, 1879.

Report of the American Delegates to the International Monetary Conference, Washington, 1893.

Report of the Committee to enquire into Indian Currency, 1899.

Report of the Chamberlain Commission.

Report of the Fowler Committee.

Report of the Price Inquiry Committee, Calcutta, 1914.

Memorandum on Currency, by League of Nations, 1922.

Imperial Gazetteer of India, Vol. IV.

Oriental Repertory, 2 Vols. London, 1808.

H. of C. Return, 127 of 1898, 254 of 1860, 31 of 1830,109 of 505 of 1864, 735 of 1931-32, 495 of 1913.

Report of the U. S. Silver Commission of 1876.

Calcutta Review, 1892, 1878.

Bombay Quarterly Review, April 1857.

Asiatic Journal and Monthly Register for British and Foreign—India, China and Australia, London, 1842.

Home Miscellaneous Series, Vol. 456, India Office Records.

Report of the Bombay Chamber of Commerce, 1863-4.

Papers relating to the Introduction of a Gold Currency in India, Calcutta, 1866.

Hansard Parliamentary Debates LXXIV.

Report of the Royal Commission on Agricultural Depression in England, 1892 (400).

Report of the Depreciation of Silver, 1876 (401).

Report of the Directors of the Mint, Washington, 1893.

Report of the India Currency Committee, 1893.

Report of the Public Service Commission, 1887.

Report of the Civil Finance Commission, 1887.

Report of the Calcutta Civil Finance Committee, 1886.

Supreme Legislative Council Proceedings LVII, Vol. L, LVI

Report of the Price Inquiry Committee in 5 Vols ; 1914.

East India—Accounts and Estimates, 1921.

Legislative Assembly Debates, 1921.

Journal of the Royal Statistical Society, 1920.

Report of the Deputy Master of the Royal Mint, 1921.

Financial Statements 1900-1, 1908-9, 1910-1, 1894-5, 1898-9.

Intrim Report of the Chamberlain Commission, 1913.

Report by Campbell Holland and Miner.

Report of Smith Currency Committee of 1919.

●●●

INDEX

Original Index of the Evolution of Provincial Finance and that of the Problem of the Rupee are printed along with the texts. Index of the remaining portion is given below.

BOOK 1 : Administration and Finance of the East India Company

BOOK 4 : Miscellaneous Essays