THE PRESENT PROBLEM IN INDIAN CURRENCY- II[f1]

2 Shillings *Versus* 1s. *4d. 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 stabilise 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 out goings 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 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 deprecations 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 deviations 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 7/8d. 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 recognises 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.

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

1918(August)	30— 0		
1918 (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 commodities 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 1 s. 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 realise 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 7/8d. 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 1s. 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 1 s. 6d.

I for myself would choose 1s. 6d. as the ratio at which we should stabilise 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 jeopardise 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 stabilisation of our exchange. In exchange stabilisation 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 stabilise 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 stabilise our prices forthwith by linking the rupee to gold at 1s. 6d. sterling. European countries will soon realise 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 stabilising 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 stabilise 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.