

INDIA'S PAPER CURRENCY DEPARTMENT (1862-1935) AS A QUASI CURRENCY BOARD

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Abstract

We examine to what extent India's Paper Currency Department (1862-1935) operated like a currency board, using statistical tests based on its monthly balance sheet. We have made the underlying data available online in machine-readable form for the first time.

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I. INTRODUCTION

Before its current era of central banking, India had a period of monopoly note issue by the government Paper Currency Department from 1862 to 1935. Many narrative accounts of the period exist, most famously John Maynard Keynes's *Indian Currency and Finance* (1913). Statistical analyses have been far fewer. Here we start to redress the balance by analyzing the monthly statistics of the balance sheet of the Paper Currency Department, which we are making available online. Our analysis shows that for part of its existence the Paper Currency Department worked like a currency board—something previous work on currency boards has not noted because data to make the diagnosis were not ready to hand.¹ We focus on determining the extent to which the Paper Currency Department operated like a currency board and do not address broader issues such as whether a different arrangement might have promoted economic growth better.

II. WORKINGS OF THE PAPER CURRENCY DEPARTMENT

Banks in India had issued notes for decades, without a government note issue. That changed under James Wilson, who was appointed Financial Member (like minister of finance) in the Indian colonial government in 1859 to curtail the deficits arising from the Sepoy Rebellion of 1857-1858. Wilson proposed spending cuts, tax

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