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?—1 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attention to the very recent developments in currency and so probably my facts and figures might sometimes be rather out of date, but I should be able to tackle any point from the theoretical side of the subject, I presume.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?—1 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.

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 emphasis 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 foreign 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 stable 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 stable 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?—1 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?—1 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 depreciation's and appreciation's, 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?—1 think it is a guess for what it is worth; a question of common-sense.

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?—1 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. Be cause 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 predilection 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 dispatch 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 dispatch. 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 dispatch 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 dispatch.

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 dispatch. 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 dispatch 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?—1 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?—1 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 against 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 pre-war 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, I 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 1 s. 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-war parity is meant the restoration of the pre-war level of prices, then the ratio instead of being lowered from 1s. 6d. in the direction 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 1 s. 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 1 s. 6d. That to my mind means a certain price level. If you want us to go back to 1 s. 4d., it seems to me we have to raise our prices. Without increasing the volume of currency we certainly cannot reach 1 s. 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 1 s. 4d.? Now I being a member of the labouring community, feel that failing 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 undesirable 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,—1 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 suspends 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 citisen 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 1 s. 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 1 s. 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?—1 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 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?— 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 1 s. 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?—Stable 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 Thakur-das : 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 parts before the war."?—Exactly.

6225. 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 general 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 parts 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 parts 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 1 s. 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 1 s. 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 1 s. 8d. and 1 s. 6d. or 1 s. 4d?—Between 1 s. 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—1 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?—1 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 I 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 today.

(The witness withdrew.)