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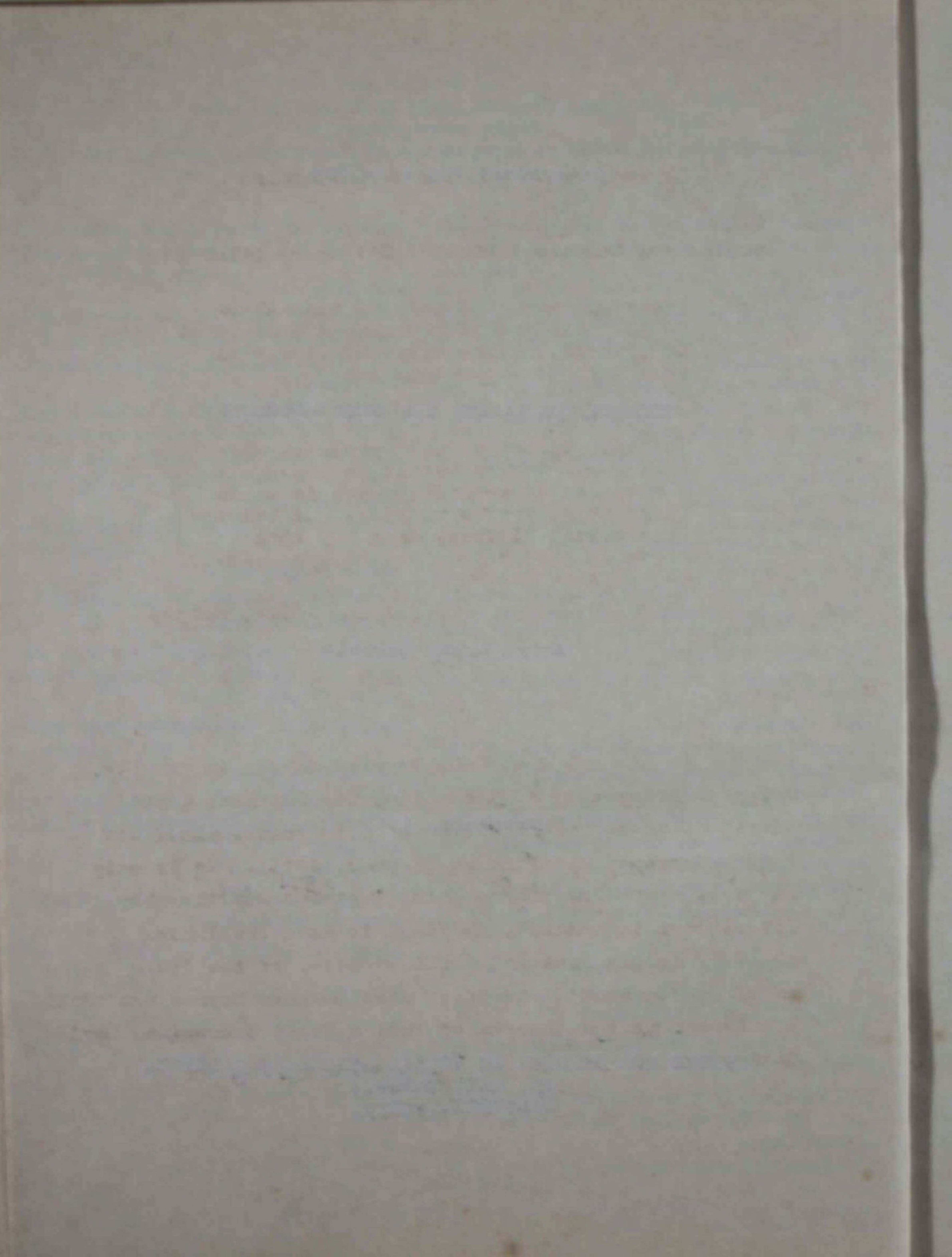
KEYNES, INDIA AND THE GOLD STANDARD

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Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist.

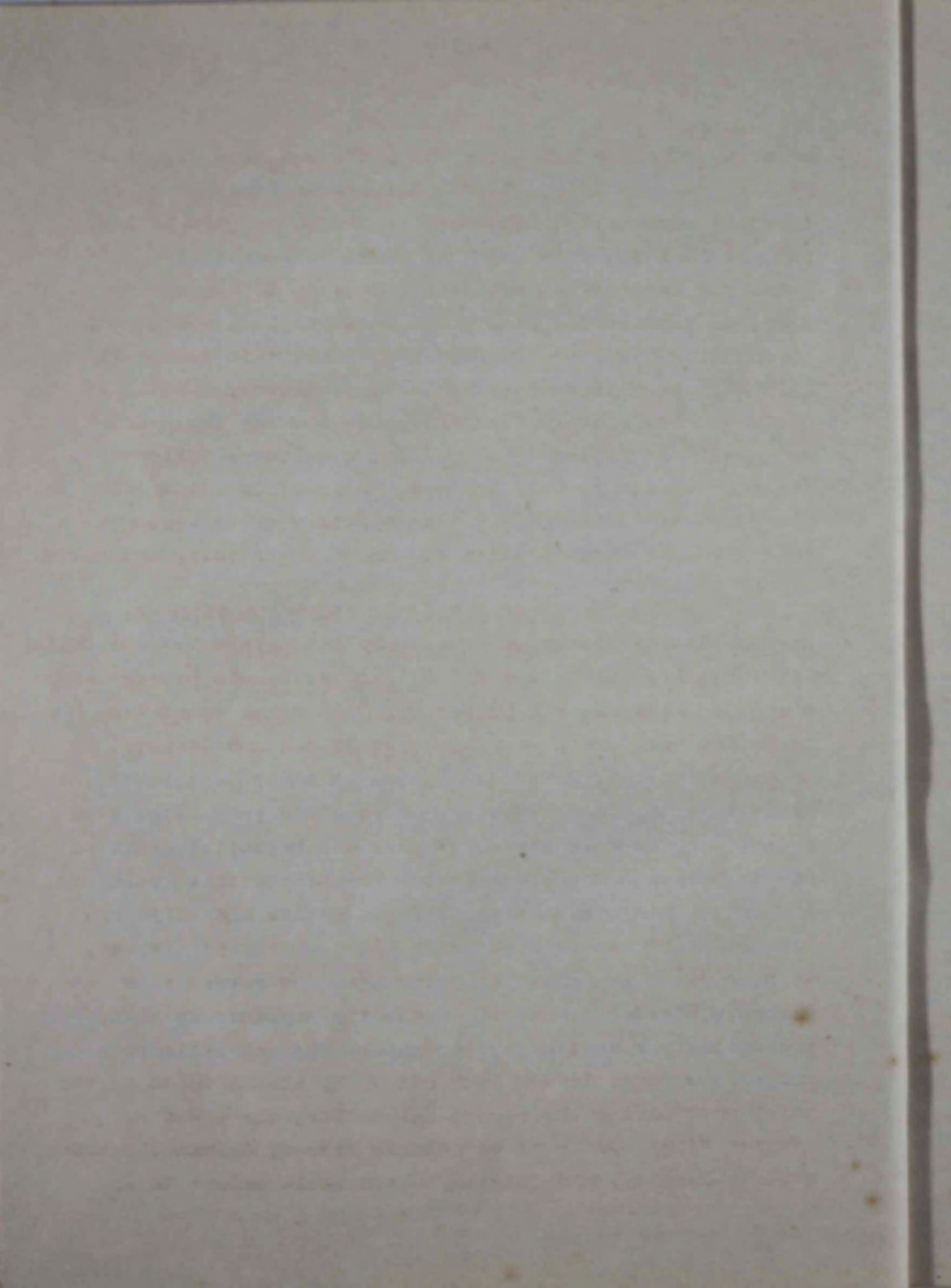
(Keynes, 1936, p.383)

Monetary theory is less abstract than most economic theory; it cannot avoid a relation to reality, which in other economic theory is missing. It belongs to monetary history, in a way that economic theory does not always belong to economic history.

(Hicks, 1967a, p.156).

I

In his entry on John Maynard Keynes in the New Palgrave Dictionary of Economics, Don Patinkin (1987) barely mentions Keynes' first book in print, viz., his Indian Currency and Finance (Keynes, 1913). Is it only because, according to Patinkin, the book was 'largely descriptive in nature', and that it used the Indian monetary system just as an illustration of the 'gold exchange standard'? Or is it also because Keynes was still a prisoner of the thought of that defunct economist, David Ricardo?



of contemporaries and later students, had been suggested by Ricardo. In 1813, Ricardo put forward the scheme for a 'perfect currency' which would be backed by gold bullion for external payments and which would dispense with gold coins for internal circulation (Ricardo, 1816); and in 1823, he completed a plan for a national bank which would have sole control of the note issue, and this was published in 1824, six months after his death (Ricardo, 1824). We shall see how closely Keynes' scheme for the long-term management of Indian exchanges and note issue followed Ricardo's ideas in this respect. Keynes, in common with Ricardo, was in the interesting position of believing in a gold standard without believing that it was fully automatic.

In Chapter II of Indian Currency and Finance, Keynes clearly recognized that only in England was the policy of monitoring the inflow and outflow of specie by regulating the 'bank rate' at all successful. In other countries, including such creditor nations as France and Germany, according to him, three props were commonly brought to the support of an 'ineffective' bank rate: 'A very large gold reserve may be maintained, so that a substantial drain on it may be faced with equanimity; free payments in gold may be partially suspended; or foreign credits and bills may be kept which can be drawn upon when necessary' (Keynes, 1913, p.14). To drive his point home, he showed that Germany, besides sometimes suspending payments in gold, increasingly resorted to foreign credits and bills to buttress changes in the bank rate. He also brought in the point that during the recent Balkan War, there was a premium of $3/4$ per cent on gold in France, Germany, Russia, Austria-Hungary, and Belgium, which would amount to an

addition of 3 per cent to the discount rate if the premium lasted for three months.

Along with Ricardo (1816), Keynes considered that the function of a gold standard was to keep the internal demand for money or credit in alignment with external developments, so that the exchange rate of the domestic currency (an inconvertible paper currency in the case of England when Ricardo made his proposal, and a convertible paper currency mixed with gold coins and token coins in the pre-First World War England) remained stable in terms of gold and in terms of all other currencies denominated in gold. Thanks to the problems faced by the Government of India, with a depreciating silver currency especially between the years 1873 and 1892, and to the persistence of such experts as A.M. Lindsay of the Bank of Bengal, such a system had already been instituted in India. What Keynes set out to do was to write a justification of the system as it operated in India, and to show how it could be better managed. He was tutored expertly in all this by India Office officials, especially Lionel Abraham.²

The belief in the necessity of a gold exchange standard and of purposive economic management was common to both Ricardo and Keynes. Most of the differences between Ricardo and the pre-1914 Keynes can be explained by the change in the context of management, and in the evolution of monetary instruments. To enumerate only some of them, between Ricardo's time and Keynes', the European money market had become far more sophisticated and far larger, as measured by the movements of capital. In that money market, London's dominance had become an accepted fact, which created an asymmetry not only between London and most of the

countries outside the North Atlantic seaboard but also between London and most of the European continental countries. The movements in this money market were mediated by periodic interventions by the monetary authorities - officially recognized central banks in the case of most countries of the European continent, and the Bank of England (a private joint-stock company) in the case of Britain. There were no central banks in Ricardo's time, but he wanted the government to regulate the note issues of the private corporations with an eye to the inflows and outflows of gold which would be, in his view of things, triggered by movements of the exchange rate of the local currency.

In Ricardo's scheme for regulating the international value of sterling, the Bank of England had no role to play except as the repository of the nation's reserves of gold. In Ricardo's view the Bank earned a profit for performing this task, a profit that would be legitimately transferred to the national treasury. In his scheme of 1823 (Ricardo, 1824) he developed further the plan for a national bank, the idea of which he had already adumbrated in a letter to Malthus dated 10 September 1815 (Ricardo, 1824, p.272). Ricardo wanted the privilege of issuing paper currency to be taken away from the Bank of England and the country banks and made over to the national bank. The quantity of the paper currency would be regulated by obliging the national bank to buy gold at a legally fixed minimum price, and issue gold coins in exchange for notes and bills on demand. This last provision helps relax the rigour of the requirement in Ricardo's 'bullion standard' scheme (Ricardo, 1816) that the bank would be obliged only to

essess notes in gold bullion, and normally for export purposes only. But essentially the two schemes complemented each other.

With the help of hindsight, it can be argued that Ricardo's espousal of a gold exchange standard scheme and his refusal to blame the restoration of the convertibility of the paper pound for the post-Napoleonic depression (Viner, 1937, pp.174-185) stemmed from his general vision that England's pre-eminence as a manufacturing country and her prospects of long-term prosperity would be helped, rather than hindered, by the restoration of convertibility. The deflation of prices following on convertibility was simply a necessary measure to foster the international competitiveness of England's manufactures. The path to riches lay through the defeat of the backward-looking protectionist forces favouring landlords in agriculture and the victory of the manufacturing interest which would find a nationally profitable market in countries such as Portugal which had a comparative advantage in agriculture (Sennel, 1970, pp.70-71).³

When Keynes took over the Ricardian apparatus and applied it to India, he was applying it to a country which was very differently placed from Ricardo's England. It was a country whose main exports consisted of agricultural products, produced often under anything but progressive conditions. Most of her exports were generated not by capital rationally applied to agriculture but by peasants working with very primitive tools and little better than survival (which they often failed to attain) as their objective. Many of the exports were price-inelastic in foreign markets (as Keynes seems to have recognized). And maintenance of stability of

the foreign exchanges encouraged capital mobility of a kind that had never been envisioned in Ricardo's scheme. We shall come back to the implications of these differences later on, but let us take a closer look at the way Keynes set up his case for a gold exchange for India.

II

To start with, Keynes took the political and social status quo in India for granted. He did not question the necessity of the annual transfer of the Home Charges from India to England or the 'tribute' as many officials of the India Office candidly called it.⁴ The tribute, together with bullion, practically made up the whole export surplus of India in normal years. Given that this tribute had to be transferred from India to Britain, what was the smoothest manner of achieving it? Keynes grasped the centrality of this question from the point of view of British Indian administration. He was also clear-sighted enough, unlike many of his contemporaries, to judge that Indian balance of payments derived little benefit from unsupported private capital inflows, for according to him, in the early 1900s and until 1914, the net private capital inflows into India were very probably zero.⁵ At this period of his life, Keynes was not worrying about any possible disturbances that might be caused to either the price level (a central concern for him in his Treatise on Money period) or the volume of employment (which became his key concern from the early 1930s, or even earlier) by operations needed to stabilise the exchange rate.

As we shall see later, most of Keynes' calculations about differences in discount rates as between India and England, relative advantages of keeping reserves in India and London, etc. make sense in terms of transaction or arbitrage costs of transferring the tribute and meeting payments for insurance, banking, etc. In a way, the main justification for the gold, or rather the sterling exchange standard in his eyes was that it minimized the transaction costs of the management of the external monetary sector. In this part of his analysis, if there is any discernible influence of any economist, it is probably that of Irving Fisher (1907). But since a gold exchange standard would necessarily equalize gold prices as between England and India, Keynes did not have to worry about the possible impact of differences in price levels on the rates of interest as calculated in rupees and in sterling or the influence of anticipations of differential changes in price levels on the current rate of interest, although presumably differential expectations of changes in the rates of interest in the two markets could still influence movements of funds between the two countries and thus the rate of interest.⁶

During the period 1909-1913, Keynes' attention was primarily confined to the mechanism for transfer of funds between India and Britain, the causes behind possible fluctuations in the exchange rate, and the means of stabilising the exchange rate. The factors influencing the volumes and values of exports and imports, or the interaction between currency and prices were considered by him, but only as a subsidiary investigation to his major lines of inquiry. He was not as yet concerned with the influence of the exchange rate on the price level, though the influence of the latter on the exchange rate came up for consideration from time to time.

Least of all did he consider how the level of economic activity might be affected by the mechanism of adjustment of the exchange rate to its officially fixed or sustainable value.

In order to situate Keynes' analysis of Indian currency and finance in its proper context, it is helpful to recapitulate the 'stylized facts' about the Indian economy he had in mind. We get a glimpse of these notions of his, from his papers, 'Recent economic events in India', in the Economic Journal of March 1909 (JMK, 1983a, pp.1-22), his paper, 'India in 1907-8', in the Economist of 3 July 1909 (JMK, 1971, pp.34-42) and his review of Morison (1911) in the Economic Journal of September, 1911 (JMK, 1971, pp.27-33).

Keynes asserted that 'the flow of capital into India, which is admittedly of the first importance for the country's economic development, is always likely to be followed by rising prices' (JMK, 1983a, p.21). In the same article, he also wrote :

It is necessary to premise that the circumstances of the Indian export trade are such that exports are not so rapidly checked by rising prices as they would be in many other countries. As India possesses a partial monopoly of many of her staple exports, she can in the first instance reap a considerable profit; whether or not exports are reduced in quantity, the fall in total value will not be proportional to this, and it is possible that she may obtain as much or even more than before in exchange for them.... We should expect rising prices ... to act more rapidly in increasing imports than in diminishing exports (JMK, 1983a, pp.10-11).

Taken together, these statements imply that the price elasticity of supply of India's products including exports was low, or at least the rate of growth of such supplies in response to increasing investment was low. Further, the price elasticity of demand for India's exports was low and the income elasticity of demand for imports was positive and large enough to be the main factor causing a positive balance of trade to be reversed -- mainly through the action of rising imports, when income and the values of exports were boosted by rising world demand.

Keynes' calm acceptance of a very low elasticity of supply of India's exports meant that he expected Indian agricultural growth to be faltering and mostly dependent on rains. As we have noted, Keynes had analysed the economic situation of India in 1907-1908, a year which was characterised by famine, without really going into the long-term causes of recurrent famines, and had merely confined himself to the immediate reasons for the price rise. If a rapid increase in imports was the chief equilibrating factor when Indian exports were booming, this would imply that incomes tended to accrue mainly to high income earners, for increased imports in a boom year consisted mainly of manufactures consumed by richer sections of the population. Keynes never looked into this aspect of the matter. He also did not ask how it happened that even in a year of famine, with a free trade regime, food grains did not move from other countries to India: there was only some shipment of rice from Burma to the rest of the British Indian empire in such years, but the net exports of food grains often remained positive. Thus Keynes more or less excluded from his analytical framework all factors which might shed a light on the slow economic growth of India during the period and the recurrent calamities.

suffered by the poorer sections of Indian people with a major famine occurring every few years.⁷

Nevertheless, India, according to Keynes, was comfortably placed in the global pattern of comparative advantage. He took Morison to task for considering that the industrialisation of India and 'the greatest possible development of manufacture' were desirable ends. Keynes went on to write :

In my own opinion such a change is not, in the future which one can foresee, either desirable or likely. It is an unfortunate consequence of the English connection, that industrialism should present itself to Indians as the royal road to prosperity and to a dignified position among nations. Because England in the Middle Ages bore many resemblances to India, and because industrialisation has since made England rich and powerful, the subjection and the poverty of India must be due, it is thought, to the absence of it. Some new industries will no doubt be found as well suited to Indian conditions as the jute and cotton industries have already proved themselves. But surely Sir Theodore Morison misreads the times when he regards Bombay rather than the never-ending fields as the presage of India's future.... if regard be had to climatic conditions and to the aptitudes and habits of her people, it seems hard to believe that India will not obtain more wealth by obtaining from the West, in exchange for her raw products, most of those commodities which she now obtains in this manner, than by diverting her capital and her peasants from the fields of the country to Bombay, to make them herself. The fact that the prices of Indian exports have been rising a good deal faster than those of imports, shows, I think, that a tendency is already at work enabling her to make these exchanges at a ratio more and more advantageous to herself. Nor is it unlikely

that manufacturing nations have now reached the highest point of their relative advantage, and that the balance of exchange will move in future in favour of those countries whose advantage lies in the fertility and the extent of their soil (JMK, 1983a, pp.27-28).

This passage already shows the well-known Keynesian tendency of taking the short-run developments to be representative also of long-term structural features. Keynes not only accepted the position of India as an exporter of primary commodities and importer of manufactured products; he justified the continuance of India in that state by the fact that India's terms of trade were improving since 1900 or so. That such an improvement might be simply a correction after an earlier fall, or at any rate, that it could be a purely temporary feature and was likely to be reversed soon, was more or less explicitly denied by him. Ironically enough, this expectation, that in the long run, terms of trade would move against manufactures was also in the tradition of classical political economy, but Keynes made this the basis of apparently a very similar prescription for India, namely, free trade, but with a very different implication for the future of India ~~from~~ what Ricardo envisaged as Britain's future.

Keynes also failed to notice, despite obvious indications, that export of agricultural products from India when the total output was increasing very slowly and fitfully, might be at the cost of worsening income distribution. There was plenty of evidence in the official literature (see, eg., Robertson, 1908) pointing in this direction.

Added to all this was Keynes' conviction that India had the best revenue system conceivable under the circumstances (a conviction that was shared by most of the top administrators of British India, who were Keynes' sources of information and enlightenment on such issues):

About 40 per cent of the net revenue of the country is derived from land revenue, the most economical and least oppressive of all forms of taxation. By immemorial right the state is part landlord of the country, and can derive its revenue from this source of wealth without injustice to individuals or disturbance to industry (JMK, 1971, p.38).

It is this conception of the economy of India as being governed by the right principles in all the major aspects that allowed Keynes to concentrate only on the monetary aspects of the question when he turned his attention to India's currency, exchange and finance.

III

Keynes had a two-pronged case for the gold exchange standard and the shape it took as concerned the Indian currency system: first, using gold as a medium of circulation was wasteful for any country and especially wasteful in a country like India, where (a) most of the transactions were of such low value that gold coins were useless for most of them, and (b) where people had an 'uncivilised' habit of hoarding precious metals, especially silver and gold. In such a country a very large proportion of the gold put in circulation would end up in private hoards

and would be neither useful for circulation nor available for settling a balance of payments deficit at a time of crisis. The second prong of Keynes' argument rested on the fact that most of India's international obligations, including her tributary obligations, were settled in or through London; so it was much more useful to have the reserves of international liquidity (of which gold was only one, though a major, constituent) in London than in India.

Keynes predicated the explanation of a large number of phenomena on this fact, combined with the other fact that the Indian money market showed highly seasonal fluctuations as regards the demand for credit.

Since the Indian rupee remained fully convertible after the adoption of the gold or sterling-exchange standard, gold or foreign exchange would flow in or flow out depending on the balance of autonomous international payments, and on whether the exchange rate threatened to rise or fall. This would happen as a part of the adjustment process; the latter might also, of course, involve changes in internal income. This was already recognized by some classical economists such as Henry Thornton (1802).³ The pre-First World War Keynes was not yet ready to recognize the income effects of changes in balance of payments or movements in exchange rates. So he confined himself almost entirely to the relative movements of prices, and to the costs of moving money between India and London, which, under the then political conditions of India, could be treated as 'rest of the world'.

In the case of India, fluctuations in the sale of bills on India (the 'Council Bills') by the India Council under the guidance of the Secretary of State for India in London were, over a wide range, substituted for movements of gold into and out of India. So the first set of calculations to be worked out by Keynes was the cost of obtaining rupees in India by buying the Council bills for sterling in London. The system of sales of Council bills has probably never been better described than by Keynes himself (Keynes, 1913, pp.73-74).

The bills are offered in London for tender at the Bank of England every Wednesday morning, the secretary of state for India in Council.... having previously announced the amount (70 lakhs, say) for which tenders are invited. There is a reserve price (not published) below which he will not sell, but this reserve price is seldom operative.... The total amount of 70 lakhs is then allotted to the highest bidders, the allotment at the minimum rate accepted being proportionate to the amount applied for at that rate.

If the demand is large and the minimum rate of allotment high (say $1s.4\frac{1}{32}d$), the amount offered for tender the following week (which is announced at the same time as the result of the previous allotment) is likely to be increased. In the interval between the allotments on successive Wednesdays, the secretary of state is usually willing to sell what are known as 'specials', at a rate $\frac{1}{32}d$ higher than the highest rate of allotment on the preceding Wednesday.

It should be added that cash must be paid for the bills in London as soon as they are allotted; but, on account of the time taken by the mail, they cannot be changed into rupees at Calcutta for about a fortnight. A fortnight's interest is therefore lost, and it is worth paying extra to obtain what are called 'telegraphic transfers', by means of which rupees can be obtained at Calcutta almost as soon as the sovereigns are paid into the secretary of state's account at the Bank of England. The secretary of state, therefore, is willing to sell transfers at a rate $\frac{1}{32}$ d per rupee higher than the rate for bills. If the purchaser chooses transfers, the effect to him is that he gets his rupees a fortnight earlier in India and pays for this privilege a sum equal to 5% on the money for a fortnight. The question, whether it is worth the purchaser's while to pay this extra sum, chiefly depends upon the Indian bank rate, because this governs the amount of interest which can be gained by having the money immediately available in India. It may happen, of course, that a particular bank may have a special urgency for funds in India, or that the rate for fortnightly loans does not closely agree with the bank rate. Generally speaking, however, if the purchaser can lend money out at no higher rate than 3% in India, he will certainly prefer bills; but if he can lend at 7% in India, it will be more profitable for him to buy transfers.

Experience accords with these expectations. When the Indian bank rate is high and the difference of $\frac{1}{32}$ d between the two prices is in force, the demand is almost entirely for transfers. This is convenient to bankers, and, if he has the rupees waiting in India, profitable to the secretary of state.

The next set of calculations concerns the relative profitability of sending gold sovereigns or gold bullion to India. Gold sovereigns could be exchanged for rupees at the Indian treasury: it was a legal requirement that the Government of India had to give rupees in exchange for sovereigns at the rate of 15 rupees per sovereign. But it was optional on the part of the Indian government to provide sovereigns for rupees. During the busy season in India the Indian exchange was high, sometimes as high as $1s. 4\frac{1}{8}d$ to the rupee, so that it was cheaper for exchange banks in London to buy council bills or telegraphic transfers in London than to try to ship sovereigns to India and obtain rupees in exchange. The situation would be reversed in the slack season in India. But it appears that exchange banks used Council bills or telegraphic transfers as the main instrument for transferring funds to India throughout the year. The main flow of gold to India was caused by the demand of Indian bullion-dealers or other Indians who wanted sovereigns (or gold bullion) for hoarding, making ornaments or, -- when the Government of India was trying to push gold coins into circulation, -- as media of exchange. In these cases, the cost of importing sovereigns from England had to be weighed against that of obtaining them from Australia or Egypt. These relative costs would also determine whether the secretary of state for India could sell Council bills in competition with the other sources of bullion or sovereign.

If the Australian or Egyptian sources were ignored, the rupee cost of importing bullion as against sovereigns would vary seasonally as already pointed out (JMK, 1971, pp.80-82; Keynes, 1913, pp.82-84). The price of gold bullion

was normally £ 3-17s 9d per oz., whereas the price of sovereigns was £3 17s 10 $\frac{1}{2}$ d; hence when the exchange was low, it was cheaper to get sovereigns from the Indian treasury than to buy council bills for importing gold bullion. The Australian and Egyptian sources modified these calculations:

As India lies between Australia and England, it is naturally cheaper (mainly on account of the smaller loss of interest) to send sovereigns from Australia to England. Let us suppose that the state of the Australian exchanges is such that it pays to remit sovereigns from Australia to London anyhow, and assume, for the sake of simplicity (and without, in fact, any substantial sacrifice of truth), that the cost of freight and insurance from Australia to London is the same as from Australia to India. Now when the Australian sovereigns are off India, the bank which is remitting them can receive cash in London against their delivery in India, it will get its money at least a fortnight sooner, and will probably accept, therefore, about 1s 3 $\frac{1}{2}$ d in London for 1s 4d delivered in India (1 $\frac{1}{32}$ d being the interest on 1s 4d for a fortnight at 5% per annum). Gold bought in this way for immediate delivery in London is as good as a telegraphic transfer, i.e. is worth 1 $\frac{1}{32}$ d per rupee more than council bills. If, therefore, council bills are at a price in excess of 1s 3 $\frac{15}{16}$ d gold about to be shipped from Australia competes with them as a means of remittance to India. Normally, of course, an Australian bank is able to get more than 1s 3 $\frac{15}{16}$ d for gold delivered in India. I mean only that the secretary of state cannot hope to undercut Australian gold, when it is available for export in large quantities, unless he is prepared to put down his price for council bills to this level. If, in these circumstances, he wants the gold in England rather than in India, his cheapest

course is to buy the gold in transit himself for delivery in England, by selling for it telegraphic transfers at a suitable rate. It is worth his while to do this, because the cost of sending gold from Australia to London in one transaction is less than the cost of sending it first from Australia to India and then from India to London in two separate transactions. (Keynes, 1913, p.81n).

This was done on a large scale in 1905-6 and 1906-7.

Surplus gold from Egypt is not capable of under-cutting council bills so seriously as surplus gold from Australia; for in this case it is Egypt which lies in between. If we assume, for the sake of precise illustration, that the cost of sending gold from Egypt to London is nearly the same as that of sending it from Egypt to India, an Egyptian bank, about to ship sovereigns in any case, will take any price in excess of 1s 4d paid in London for the delivery in India of the value in gold of a rupee. This is the extreme case. If council bills are at a higher rate than 1s 4d, say at 1s $4\frac{1}{16}$ d, the Alexandrian exchanges may be at a level which makes it profitable to ship gold from Egypt to India for payment in London, when it is not profitable to ship gold from Egypt to London. If we still make the above illustrative (but not exactly accurate) assumption, when council bills are at about 1s $4\frac{1}{16}$ d and the Alexandrian exchange on London below par, Egyptian gold competes, with Councils as a means of remittance to India. (Keynes, 1913, pp.80-82).

These calculations show that Keynes was acutely aware of the institutional context and the localized conditions under which all these arbitrages were taking place. The circumstances under which insurance charges could go up, temporarily, the time difference in the busy seasons of Egypt

and India and the consequent outflow of Egyptian gold coins to India, the fact that small bars of gold enjoyed a premium in India (JMK, 1971, p.83) - all of these 'complications' received their due attention from him.

Once Keynes had worked out the major costs of transferring money from London to India and back in various forms, it was easy to explain the systematic differences in the peak rates of interest between India and England. Keynes showed that the maximum rates of interest charged by the Bank of Bengal on first class bills (which he rightly took to be representative of the maximum rates of interest prevailing in the so-called 'organized' money market in India) and the maximum bank rates charged in England differed regularly by 3 to 4% (Keynes, 1913, pp.171-172). Keynes attributed this difference to two different factors: First, the Indian rates were highly seasonal. The 8 or 9% rate might be obtainable by a banker in India for not more than three months; for the rest of the year the rate might go down even to 3% and it might be difficult to lend out most of the cash balance even at that low rate. Then the expected rate of return in India might be no higher than that in England, and, given the differences in the sizes of the two money markets, might be in fact lower than in England.

Secondly, given the fact that the banker would want to shift the money as between the two markets, he would have to calculate the cost of remittance as double that of the one way transfer. Keynes calculated this cost in the following manner: '.....under present conditions, the cost of remittance both ways can hardly be less than $\frac{1}{16}$ d per rupee, rising in most years as between certain dates as high as $\frac{5}{32}$ d, and reaching occasionally as much as $\frac{3}{16}$ d. It would not be prudent

to act on the expectation of a loss cost than $\frac{3}{32}$ d. Now $\frac{3}{32}$ d on a rupee is about 0.6%. If this loss on exchange (i.e. on remittance) is to be recouped in three months (i.e. in a quarter of a year), an additional rate of nearly 2 1/2% per annum must be earned in India as compared with the rate in London, (JMK, I, p.172). Seeing that this still left something to be explained (since he had not really calculated the expected rate for the full year, and showed it to be definitely less in India than in England - otherwise the question of bringing the money back from India would not arise), Keynes added: 'If money can be employed in India at the high rate for one month only, even if the double cost of remittance for that period is so low as $\frac{1}{16}$ d, the difference between the London and Indian rates must amount to 5% per annum to make a transfer of funds prima facie profitable' (Keynes, 1913, pp.172-173).¹⁰

Having demonstrated the reasons for the persistent difference between the peak bank rates in England and India, Keynes proceeded to show that, ceteris paribus, it was impracticable to iron out this difference through deliberate shifting of funds between the two countries. If the cost of shifting of funds were to be borne by private parties such as bankers and merchants, then the difference caused in the bank rates in the two money markets (England and India) by the remittance costs would necessarily obtain. If the secretary of state for India would undertake to convert rupees into sterling and sterling into rupees at the uniform rate of 1s 4d in India and in England, then, of course, private parties could shift funds without having to incur any remittance costs. But then the remittance costs and the costs of holding large balances in India and in England would have to be borne by the secretary of state (Keynes, 1913, pp.175-76). Keynes did not

find any justification for allowing private parties thus to make profits at the cost of the government.¹¹

He offered one palliative to take care of the extreme fluctuations in Indian bank rates: the government of India might in future have considerable rupee funds in the paper currency reserve (since Keynes wanted the reserves of the government of India strengthened for ensuring exchange stability, and the gold or sterling parts of those reserves concentrated in London) from which credit could be extended to the banking system and the public at times of pressure on the money market.

IV

The fly in the ointment applied by the government of India for managing the Indian monetary system that Keynes could discern was that the supply of money in India lacked elasticity. The cheque system had not developed in India; and the only notes were the government paper currency. The supply of notes could be augmented only when an adequate value of rupees was tendered for it, either in the form of coins or in the form of gold, since the 'fiduciary' issue was fixed in value that was augmented only over long intervals. Effectively, that supply of rupees could be increased only when Council bills or sovereigns were changed for them. Thus the Indian money supply was geared almost entirely to the export surplus, which was subject to manipulation by the government of India, at least within limits. This manipulation could take the form of raising of fresh loans on the London money market, repayment or funding of loans, and rescheduling of expenditure patterns.¹²

Keynes did not see any point in trying to impart elasticity to the Indian monetary system by allowing free coinage of gold into sovereigns in India. In the paper that was circulated 'privately' by the government of India in 1911, Keynes wrote: 'India, as we ~~as~~ know, already wastes far too high a proportion of her resources in the needless accumulation of the precious metals. The Government ought not to encourage in the slightest degree this ingrained fondness for handling hard gold. It would be a good thing, I think, if sovereigns were to cease to be legal tender, if no gold reserve whatever were to be held in India, and if no facilities were granted for the exchange locally either of sovereigns for rupees or rupees for sovereigns' (JMK, 1971, p.81. Italics ours). Keynes' thundering against the lust for gold sounds eminently reasonable but for two sets of circumstances. The first was that the secretary of state did everything in his power to see that the exchange rate did not rise much beyond 1s. 4d. What he did was to accumulate any balance of payments surplus in the form of forced foreign credits extended by India and keep it in the shape of sterling securities or gold held in England; thus most of the expansionary impulses contributed by a larger export surplus would be bottled up for the sake of stability of exchange. But the secretary of state did not undertake to support exchange when it threatened to fall below 1s. 4d. (JMK, 1971, p.72; Keynes, 1913, p.83). This latter eventuality could have an expansionary impulse if the elasticity of demand for major Indian exports was sufficiently high and the elasticity of supply of the major exports was also sufficiently large. According to Keynes' own assumptions, the elasticities of supply and demand were both low in the case of Indian exports.

Thus a depreciation of the rupee might well have contractionary effects on the Indian economy.¹³ While Keynes mentioned the asymmetry in government policies towards exchange, he did not realise the deflationary trend given to the general movement of the economy through such policies.

As it happened, the action of the secretary of state in supporting exchange in 1907-1908 involved the contraction of currency in circulation in India. Because of bad Indian harvests, exchange tended to sag. Since gold was not freely available from the treasury for export from India, the exchange rate fell to 1s $3\frac{11}{16}$ d on 25 November 1907 (Keynes, 1913, p.97). By the end of December the authorities announced that they would sell in India sterling bills on London at the fixed rate of 1s $3\frac{29}{32}$ d. These were the so-called reverse councils. Even though railway loans and 'loans for general purposes' were raised to the tune of £14,500,000 between September 1907 and September 1908, of which only £4,500,000 went to strengthen the reserves of the secretary of state for India (because of absorption of most of the amount by past commitments, purchases of railway stores and so on), the deterioration in the position of the secretary of state up to the autumn of 1908 was of the order of £ 25,000,000 (Keynes, 1913, p.99).

Under the arrangements then prevailing, in Keynes' words 'unless there is a deficiency in the revenue from taxation, and apart from loans, the extent to which the secretary of state can draw on sterling resources must exactly equal the extent to which the government of India can withdraw rupees from circulation. For every transfer from the sterling

branch of any of the reserves must be balanced by a corresponding transfer into the rupee branch'. (Keynes, 1913, p.100). Following this rule, Keynes calculated that the active circulation of notes and coins in India had been reduced over 1907-08 by about Rs.285 million. Since the currency in the hands of the public in 1907-08 was estimated at Rs.2146 million by Keynes (Keynes, 1913, p.109), this was a severe dose of currency deflation. How much of an impact it would have on actual economic activity would, of course, depend on the relation of growth of currency to growth of transactions, the expenditure propensities of different groups of people (as sellers of commodities, and buyers of consumables) and so on.

The second major fact that Keynes forbore to mention was that during all these years the most sophisticated money market in the world, viz., London, was avidly absorbing gold (let alone such relatively 'unsophisticated' markets as Paris and New York), and the accumulation of gold and sterling securities by the secretary of state for India in London added to the reserves that could be manipulated by the Bank of England.¹⁴ The Indian appetite for gold which Keynes deplored interfered with the process of centralisation of the international monetary resources of India in London.¹⁵

The official policy of centralisation of gold reserves naturally sustained private activities which also tended towards the same result. The exchange banks acted as moppers-up of resources from India. According to figures quoted by Keynes (Keynes, 1913, p.152) whereas the exchange banks had been able to mobilise deposits in India which rose from £7.9 million in 1901 to £16.2 million in 1910, their cash balances in India had increased only from

£2.2 million to £2.9 million. The exchange banks greatly depended on loans from the Presidency banks and on short-term accommodation from the secretary of state (via telegraphic transfers) for their lending business in India.

At this stage Keynes attached great importance to maintaining exchange stability and avoiding the danger that an internal banking crisis would be compounded by an external payments crisis. So he ended by recommending that the government of India should hold much larger balances for overcoming any such crisis, and that it should be prepared to lend much larger amounts to the Indian banking system in the busy seasons as a normal procedure. But according to his scheme, out of the total reserves of £ 65-75 million to be held by the government only £ 31.25 million would be held in India, of which £ 17.5 million would be in gold (Keynes, 1913, p.123). This, of course, would be a logical conclusion if transferring the tribute every year from India to England at the least possible cost remained a paramount aim. The continuing deflationary bias given to government policy by this overriding goal would swamp any short-term terms of trade effects of the transfer of a larger tribute.¹⁶

Keynes' work in formulating the schemes for a central bank for India was an important landmark towards the constitution of the Imperial Bank of India which was formed by amalgamating the three Presidency Banks and began functioning in 1921 (Keynes' schemes had been preceded by many proposals and memoranda written by government officials of whom Lionel Abrahams was perhaps the most important source of ideas). But the Imperial Bank was only half a central bank: it did not have the responsibility for formulati

a monetary policy although it was used as an instrument of control by the India Office and the Government of India.

One reason for the half-way house that the Imperial Bank was certainly lay in the considerable opposition to the idea of a central bank among businessmen in India and England. One of the most powerful interests opposed to the constitution of a central bank was the group of exchange banks with their headquarters in London but operating, with few restrictions, in India. Some of them had been chartered in the nineteenth century by the British Parliament and some operated under the laws regulating joint-stock banks in England. Although some had pretensions to operating in all the countries of the British empire, the self-governing dominions such as Canada and Australia, refused to allow them to operate in their territories unless they came under the laws passed in those dominions to regulate the operation of banking companies. No such regulations ever inhibited their operations in British India (Bagchi, 1987, Part I, chapter 19). Although the plea had been put forward from time to time that the exchange banks mobilised deposits in England to channel them for extending credit in India, it was quite obvious by the beginning of the twentieth century that exactly the opposite was happening (RC, 1913, pp.130-131): the exchange banks mobilised deposits in India, and a fixed exchange rate under the dispensation of the gold exchange standard allowed them to employ most of their Indian deposits for extending credit in London. The reasons for this development were twofold: the first was the high seasonality of demand for credit in India, the consequences of which, in terms of arbitrage operations, Keynes so ably analysed. The second factor, which was not unconnected was that even with the poor

development of banking facilities there were large unutilised balances in the coffers of the Presidency Banks except for short periods or in abnormal years, such as localized famines, or a sudden spurt in export demand. Keynes failed to analyse the long-term factors depressing the demand for credit altogether.

The exchange banks unashamedly acted as a lobby to bring pressure on the government. They, for example, jointly sent two representatives, J.A. Toomey and T. Fraser, who gave their testimony before the Chamberlain Commission on behalf not only of all the British exchange banks but also of all the other major foreign banks operating in India. They made it quite clear that they would not like the Presidency Banks to compete with them ('unfairly') in the foreign exchange market.¹⁷

Keynes' memorandum took account of these political realities and not only left the exchange banks as unshackled as before in their operations in India but also retained for the proposed central bank virtually all the disabilities from which the Presidency Banks suffered with respect to operations in the foreign exchange market:

No important object would be served by allowing the Bank [i.e. the proposed central bank - A.B.] to compete with the exchange banks in attracting deposits in London. Nor is there any clear advantage (sufficient to counterbalance the opposition which would be aroused) in allowing it to enter into the regular business of trade remittance by buying trade bills in both directions. Such competition with the exchange banks is in no way necessary to the prime objects of a state bank. (JMK, 1971, p.184).

Since the only major objective of the central bank in its foreign exchange operations would be to keep the Secretary of State for India in funds at as little cost as possible, Keynes would allow the central bank to buy sterling bills in India - but only from other banks. The sale of rupee drafts (the Council bills) would continue, but they would be supplemented by the rediscount business in sterling bills conducted by the central bank.

The only real extension of the powers of the Presidency banks Keynes proposed was handing over of government funds to / ^{the central bank} and the management of note issue which was proposed to be rendered far more flexible, by making the 'fiduciary issue' a graded proportion of the actual note issue. He expected these arrangements to 'somewhat moderate' the existing wide fluctuations of the bank rate. He also expected the union of government and banking business to lead to the opening of a much larger number of branches and promote the development of both private and co-operative banking (JMK, 1971, p.193).

Keynes did not propose the regulation of private banking in any way : while in his book Indian Currency and Finance (Keynes, 1913) he had noticed the very small proportion of cash and other balances that all banks other than Presidency banks/^{kept} and pointed out the dangers arising from that situation, he did not propose to give powers to the central bank to regulate the cash to deposits ratio or the ratio of liquid assets to deposits. He relied on the centralisation of reserves and the creation of a central bank which could pursue a bank rate policy and promote a rediscount market to provide the insurance against a general banking crisis which the prevailing Indian arrangements lacked (JMK, 1971, p.197).

However, with all the embellishments added, Keynes' scheme still looks in essentials like a re-embodiment of the Ricardian proposals which sought to make credit money behave like metallic money (Ficks, 1967a, p.167). For, everything was still geared to the supreme necessity of unidirectionally transferring large sums of money to England at the minimum cost, which necessitated the maintenance of an almost invariable exchange rate. The central bank would have very little to manage except in years when the export surplus was considerably more ample than the demands the secretary of state would make on it. The sheer disproportion of the government operations in the exchange market to the total resources of the Presidency banks (which were, domestically the most important part of the European-style banking system) can be gauged from the fact that, to take two figures at random, whereas in 1910 the Council bills sold by the secretary of state amounted to £27.4 million or Rs.411.0 million (at Rs.15 per pound sterling), the total deposits of the three Presidency banks amounted to Rs.365.4 million (REI, 1954, Section 9, Table 1, and Section 1, Table 3). The much-desired elasticity of the note issue would be sorely tested as soon as the operation of transferring this enormous tribute was threatened.

In any case, Keynes' whole effort was concentrated on strengthening the buffer against any possible general banking crisis and an associated crisis in the exchange mechanism, and on increasing the elasticity of supply of notes and eventually, of bank credit. But he had nothing to say as to how to increase the elasticity of demand for bank credit or the supplies of agricultural products trade in which was the main support of the credit mechanism in India at the time. As it was, limited as their resources were, the Presidency

Banks found it difficult to employ their loanable capital fully even in the peak season in many years, so that they generally had such larger cash balances than they really needed for safety. This was also the factor which induced and permitted the exchange banks to mobilise deposits in India and employ them in the London money market. Keynes failed to notice that transfer of the Home charges to London year after year acted as a permanent dépressant on incomes and effective demand in India. This is where his later theoretical innovations would have helped him if he had been prescient enough to give up being a Ricardian in favour of becoming a Keynesian ! Or this is where, to put it without the air of fantasy, a knowledge of Thornton's work (Thornton, 1802; Hicks, 1967b) would have warned him against expecting that the invoking of a mere institutional arrangement permitting the possibility of rediscounting of bills on a large scale would conjure up a rediscount market.

But the Thorntonian management of credit would have required not only a mitigation of the effects of the depressant of remittance of Home Charges. It would also have required a greater effort (it could hardly have been smaller) on the part of the government of India to spread irrigation facilities, extend agricultural loans and invest a more-than-token amount in research in new agricultural technology and its extension: under British rule India remained an agricultural country with very little agricultural research or extension (Bagchi, 1972, chapter 4). A faster growth in agricultural production would, however, not have led to a significant dampening of the seasonality of demand for credit. For that a much larger demand for credit for industrial purposes would have been needed. Keynes had however, ruled out that possibility by his ruling that India,

as she was, fitted nicely in the global scheme of comparative advantages, and she had to look for her future prosperity not in the factories but in the fields.

Keynes' neat separation of the banking functions of the central bank and the budgetary functions of the government did not make any sense because Keynes had no room for an activist monetary policy. We may want to qualify the general conclusion of Mundell (1963) that in a world of fixed exchange rates, a country which cannot generate an inflow of capital by influencing interest rates in the long run can pursue only an activist fiscal policy but not an activist monetary policy. But nonetheless it is difficult to resist the conclusion that in the Indian context where the government operations for transfer of funds abroad had such dominating monetary effect, there was little room for separation of fiscal and monetary policies (cf. Mundell, 1962).¹⁰ We have already quoted the relative magnitudes of the deposits of the Presidency banks and the sales of Council bills by the Indian government. The difference, between the weights of the government and the banking system in the two countries of the U.K. and India, are brought out by Table 1.

Table 1. Government expenditure and bank deposits in the U.K. and India, 1910. (figures in £ millions)

| | United Kingdom | India(a) |
|------------------------------|----------------|----------|
| Total bank deposits | 970-980 | 69.4 |
| Total government expenditure | 156.9 | 93.5 |

Sources: Mitchell and Deane, 1976, pp.398 and 447. RBI (1954), Section 1, Table No.1; BI 1922), p.1.

Notes(a) The figure for government expenditure relates to the financial year from April 1910 to 31 March 1911.

Keynes's demonstration of the near-impossibility of moderating the seasonal fluctuations of the rate of interest in India through the bringing in of foreign capital depended on the assumption that virtually all such capital was short-term capital, which moved only in response to changes in the rate of return to be obtained from short-term lending. Keynes was realistic in this assumption. However, what he did not discuss (and what few commentators after him have discussed either) is how differently international capital treated India or other dependant British colonies including India, and countries like the U.S.A., Canada, Australia or even Argentina in this respect. One major reason for this difference was the political autonomy enjoyed by the latter. As D.C.M. Platt (1985) has pointed out, 'all kinds of patent regulations, tariff restrictions and tax inducements' acted as incentives for British and U.S. firms to establish industrial plants in Canada; such incentives and many others, were also available for investors in Australia. Such incentives were totally absent in India; and most white businessmen generally thought of India as a place where profits could be made to be transferred to more temperate climates, and not as a place for permanent settlement or permanent lodgement. Free capital mobility under these conditions could only make for short time-horizons of investment for the foreign capitalist.

The totally unregulated operations of the exchange banks aggravated the problem. For them, India was simply an extension of the London money market, and Indian rhythms would be totally subject to the requirements of the London money market.¹⁹

Marcello De Cecco (1937, p.542) has accused Indian economic historians of neglecting the analysis of the impact of the gold exchange standard on Indian economic development. That accusation is largely justified. But one reason for that has been that such an analysis has to take into account (a) the political matrix in which the standard was operated, (b) the consequences of a process of transfer of capital not as a once-for-all phenomenon but as a more-than-a-century-old structural constant, and (c) the effects of the internal production relations (supported by the alien political authority) on the general dynamism of supplies which would interact with (d) the depressed effective demand situation created by the political regime. Such an analysis can obviously not be conducted by confining oneself only to the variables that are usually considered relevant by monetary theorists or practitioners of macroeconomic analysis in the conventional sense. We have tried to establish the nature of the most important connections between the monetary and the real variables, the fiscal and the monetary policies, the external political regime and the potential of internal economic growth. But a precise delineation of the Quantitative and Qualitative effects of each of these effects will require a treatise rather than an article.

V

Keynes attributed the tendency of India to absorb gold and bullion in general to a propensity for hoarding. But he never investigated the objective reasons for the hoarding, nor the reasons why exchange banks systematically employed

deposits mobilised in India, not in the Indian, but in the London money market. When he examined the possible remedies for correcting the extreme seasonality in the demands for credit and consequently in the bank rates in the apex banking sector of India, he never considered the need for evening out the seasonal or the long-term demand for credit. The growth of an industrial sector of respectable dimensions was something that he had ruled out as a possibility.

Until the first World War, Keynes was quite comfortable with the international monetary mechanism as it was. His polemics against the tariff reformers, his support for foreign investment by Britain in the U.S.A., Canada, Australia, etc. and for foreign investment in general, his powerful advocacy of the exchange arrangements that had grown up in India (an advocacy that was gratefully acknowledged by India Office administrators such as Sir Thomas Holderness and Lionel Abrahams) show him to be a liberal interventionist who was willing only to tinker with the details of the existing structure but not with its fundamentals. His consignment of India to the status of a primary-producing country for ever is of a piece with his view of the world. It is doubtful whether he **would have admitted** that part of the reason the U.S.A., Australia and Canada could attract private investment on a scale which was not to be matched by the trickle of foreign investment into India lay with the ability of the former to pursue industrializing policies that were denied to the latter.

JMK 1971, pp.20-30). Keynes later amplified his argument and claimed, in his review of Morison (1911) in the Economic Journal of September 1917, that 'during the ten years 1899 to 1909 the interest payable abroad on private capital previously invested in businesses or companies in India was approximately balanced by the private capital newly invested during the same period' (JMK, 1983a, p. 32).

6. For evidence of Keynes' use of Fisher (1907 and 1911) see JMK, 1983a, pp.375-81; JMK, 1983b, pp. 725-30, 760-64. On Fisher's analysis of the rates of interest and the exchange rate, see Aliber (1987) and Tobin (1987).
7. According to the authoritative estimate of Sivasubramanian (1965) the agricultural output of India (at 1938-39 prices) increased only from Rs.7,503 million in 1900-01 to Rs.8704 million in 1910-11 to fall back again to Rs.7393 million in 1913-14. Between 1906-07 and 1907-08 the value of agricultural output fell by a sixth, when the trend rate growth was already low.
8. See also Ford (1962) and Hicks (1967b).
9. The proportionate cost of anticipating the receipt of money in India by a fortnight through telegraphic transfer was $\frac{1}{32} \times \frac{1}{16} = \frac{1}{512}$ (Since 1 rupee = 1s. 4d. = 16d.) which is slightly less than 5% per annum, since the latter, for a fortnight comes to $\frac{5}{24} \times 100 = \frac{5}{2400}$ r. So Keynes is only approximately right. Keynes quoted a rule (JMK, I, p.74n) according to which the extra charge for transfers was $\frac{1}{16}$ d. per rupee when the Indian bank rate was below 9% and $\frac{1}{12}$ when it was 9% or above. Upto 1904 the 1/16d. surcharge for telegraphic transfers had come into operation when the Indian bank rate exceeded 6% and then the operative bank rate was raised to 9%. By such small changes did the Council of India make it more attractive for the exchange banks to keep more of their money in London than before.
10. Keynes was very much aware of the limits on the automaticity of the gold or gold exchange standard, as we noted earlier. But he had a tendency to slur over the differences in the constraints imposed on the automaticity in different countries. For example, he tried to make out the widening of the gold import and gold export ~~that can be achieved~~ points in many European countries because

of limits deliberately imposed on the convertibility of their currencies by the respective governments was of the same nature (Keynes, 1913, p.173), as the widening of the points of movement of funds as between India and London because of basic structural reasons, caused in their turn by the political dependence and underdevelopment of India. Such slurring over has persisted in the literature to this day.

11. Keynes, in common with most India Office officials, regarded the 'public interest' to be coincident with the interest of the Government of India. Indian bullion merchants, exchange banks and Indian peasants wanting to handle gold were all regarded by him as enemies of the public interest if they wanted to do something that would impose an additional cost on the government of India. In some ways, his attitude typified the essence of 'liberal statism', according to which the government is a neutral entity and stands above all sectional interests.
12. Tomlinson (1979, p.24) has alleged that Keynes was wrong in claiming that the council bill system was 'the only way in which the money supply in India could be increased once the mints had been closed, for the indigenous banking system was sophisticated and some of the holdings of treasure of both native bankers and substantial cultivators acted as a basis for credit expansion'. Keynes was in fact claiming that the additional rupees obtained in exchange for council bills was the base for currency circulation and whatever credit expansion there was. It is difficult to argue against this position unless it can be shown that the direction of movements of credit extended by the 'native bankers' were systematically in the opposite direction to movements of currency in circulation, and credit extended by the European controlled banking sector. The same force that would tend to contract the currency in circulation or its growth would also normally lead to a fall in the demand for credit from the European banking network and on the part of substantial merchants borrowing from the Indian bankers. At most it may be claimed that credit operations by the Indian bankers might cushion some of the effects of lower sales of council bills as a result of a fall in exports.

13. Possible contractionary effects of a devaluation in the case of less developed countries were worked out by Cooper (1973), Hindleberger and Lindert, (1978) chapter 15 and Appendix H; and Bagchi (1982), chapter 5.
14. See in this connection, Ford (1982), chapters III and IV; De Cecco (1974), Chapters 4-6.
15. According to an estimate made by the India Office, the net absorption of British gold coin in India in the twelve years from 1901-02 to 1912-13 amounted to £60,66,000 and this is presumably what caused alarm. See Statement 11 in Appendix II of the evidence given by Lionel Abrahams, RC, 1913. According to estimates quoted by Keynes in 1930, the amount of gold in circulation and in banks and treasuries in Great Britain was worth £150 million in 1913, of which only £30 million was held in the treasury or the Bank of England. See Keynes (1930), p.297. Since Britain had gone back to gold with pre-war parity in 1925, these figures are comparable to those quoted for India.
16. Most of the literature on terms of trade effects of the so-called 'drain' has generally barked up the wrong tree. They should have been concerned not with the terms of trade effect of a transfer as if it was a once-for-all effect. The terms of trade would settle down to a figure after digesting the effect of a regular drain of a given size, as if foreign investment of that size was being effected every year. In fact, it would settle down to a stable figure if there was a regular increase in this unrequited 'foreign investment' roughly in proportion to increases in exports and imports, as if we were dealing with a steadily expanding foreign trade sector. But, of course, there were both economic and 'political' shocks in the Indian case which would tend to upset this steady-growth regime, and those would require separate analysis.

17. See the evidence of Toomey and Fraser, in RC (1913), pp.126-144. According to them, and according to the spokesmen of all the exchange banks from the middle of the nineteenth century, the competition of the Presidency banks was unfair because the latter had the use of a part of the government balance. In fact, the government balances had become less and less important in the liabilities of the Presidency banks over the period the exchange banks increased their business at a rapid rate in India. What the exchange banks forbore to mention was (a) that while Presidency banks were not allowed to operate in the foreign exchange market including London, no such restriction applied to exchange banks operating in any location or market in India, (b) whereas the Presidency banks were prohibited by law to lend for any purposes or for any period beyond a very short term, no such restrictions applied to exchange banks operating in India and (c) the Presidency banks were obliged to keep large cash balances because they were generally forbidden to practise credit rationing as between borrowers offering similar security and by convention, were expected to lend to other banks, especially exchange banks, at all times - and often at a concessional rate.
18. This is one reason why Indian nationalists did not feel as enthusiastic about stabilisation of the exchange rate as the officials of the government of India. D.E. Wacha put it well in 1898:

When the stomach is in disorder, it is the head that is complained of. While the stomach is aching, the head is needlessly accused ... Precisely in the same way, the disease, Ladies and Gentlemen, is not currency at all, but the Home Charges.

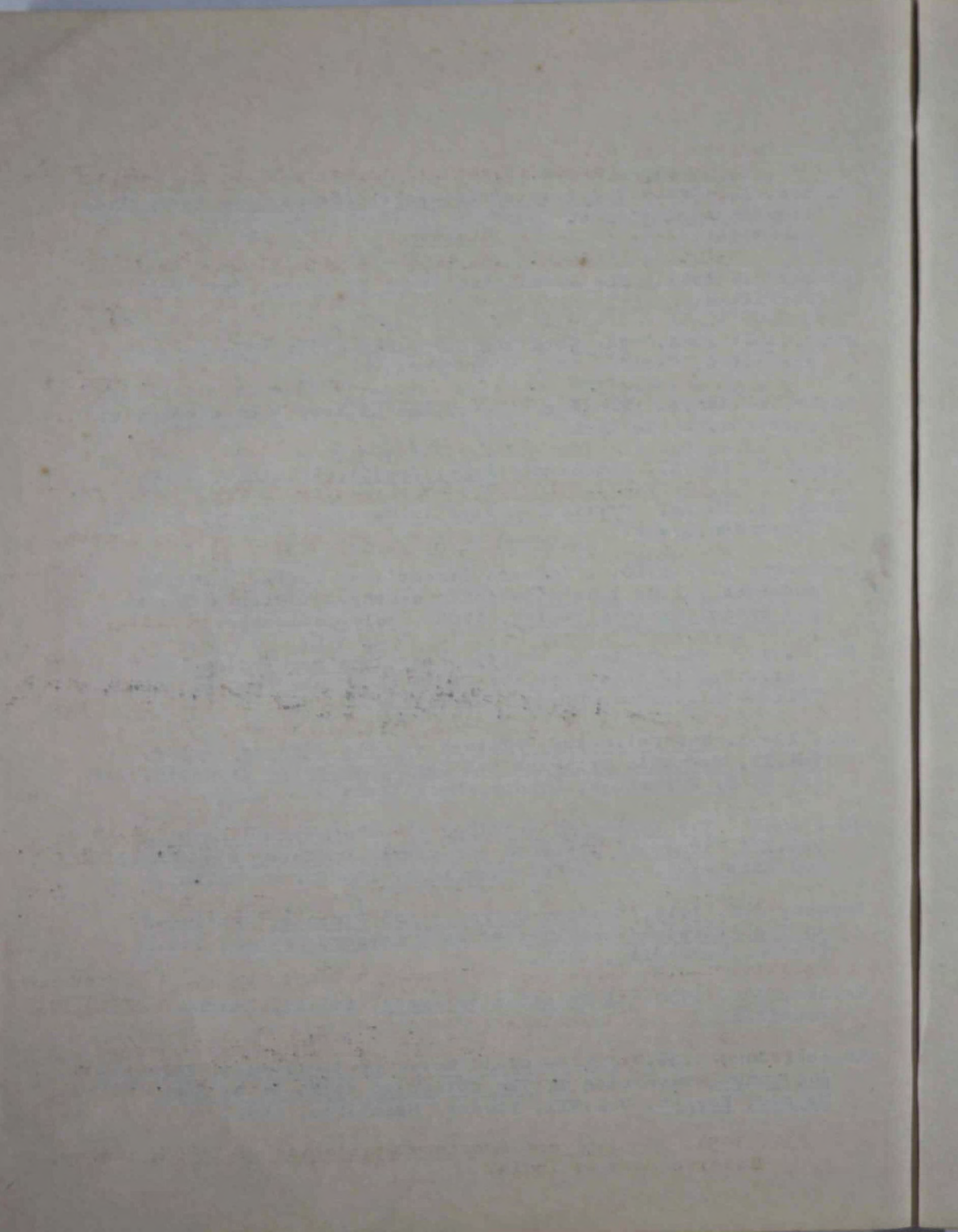
Report of the Fourteenth Indian National Congress, p.97, as quoted in Kaminsky, 1980, p.324.

19. For discussion of the way the banking policy evolved in London upto the first World War, see besides Clapham, 1944, vol.2, Sayers, 1976, chapter 3. The independence of banking policy from the Treasury was more or less ended during the first World War, with only a sporadic outburst of conservative banking in the 1920s. For the history of the see-saw nature of the relationship between the Bank of England and the treasury upto 1930 see Sayers, 1976, chapters 5-8.

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