

THE TRUTH AS REGARDS MANIPULATION OF CURRENCY *

THE RATIO OF 1s. 6d AND ITS MAINTAINABILITY

The critics of the Report of the Royal Currency Commission have argued that "the ratio of 1s. 6d. was attained by official administration of the currency" and a drastic process of deflation. They have further alleged that as that ratio is a forced ratio (and not the "natural" ratio), it can be maintained only a little further by a policy of continuous deflation; but that ultimately the ratio cannot be maintained since its maintenance "would expose the resources of the Government of India to the point of deflation" (Minute of dissent paras. 68—70 and 128). These allegations deserve to be examined carefully.

War-Time Inflation

It will soon appear that both the extent and the influence of the preliminary deflation of the period ending in August 1923 have been greatly exaggerated. Having regard to the great inflation of our currency during and after the war which raised the circulation of rupees and notes from 248 crores in 1914 to 407 crores in 1918—and which the author of the dissenting minute himself terms "an immense inflation"—the subsequent deflation was both partial and hesitating. As an authority on Indian finance has put it: "the existence of budget deficits of a substantial amount clearly made currency contraction a matter of unusual difficulty, but in the three years 1920-21, 1921-22 and 1922-23 Government was able to effect a reduction in the currency circulation amounting to Rs. 38 $\frac{1}{2}$ crores". The minute of dissent admits that taking the last five years together, even during the epoch of deflation the average expansion of currency was 12.12 crores a year

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