

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 despatch 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 Alexander 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?—I 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 overreached 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?—I 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 prewar 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, 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 1s. 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 1s. 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 1s. 6d. That to my mind means a certain price level. If you want us to go back to 1s. 4d., it seems to me we have to raise our prices. Without increasing the volume of currency we certainly cannot reach 1s. 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 1s. 4d.? Now I being a member of the labouring community, feel that falling 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,—I 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 supends 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 citizen 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 1s. 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 1s. 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?—I 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 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 ?—I 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 1s. 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 ?—Stabler 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 Thakurdas : 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 pars before the war.”?—Exactly.

6226. 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 pars 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 pars 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 1s. 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 1s. 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 1s. 8d. and 1s. 6d. or 1s. 4d?—Between 1s. 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—I 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?—I 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 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 to-day.

(The witness withdrew.)

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