The sterling crisis and the managed float regime in India, 1921–1924

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It is a paradox in the inter-war economic policy experience of Britain and her colonies that Britain should have ceased to defend the war-time sterling-dollar parity ($4.765), and soon thereafter have gone off the gold standard, when she was experiencing high rates of inflation.[1] Sterling's downward float worsened inflationary pressures and was seen as representing the eclipse of the so-called 'dear money school' and a setback for those, such as the supporters of the Cunliffe Report, who wanted the adoption of a severe deflationary regime.[2] Susan Hawson points out that the immediate reason for abandoning the gold standard was the cost of maintaining the sterling at its war parity, apart from the effect of that step on employment. The primary sources 'do not support the claim that the British government decided to abandon the gold standard only with the firm intention of returning to it as soon as possible.'[3] But, by the end of the year even the politicians in government had aumitted the desirability of an early return to gold and thereafter, this objective, in the view of a contemporary observer, dominated the British policy almost exclusively in her financial relations with the Empire.[4]

As is well known, the sterling's position as a key currency in the pre-war gold standard depended less on British gold reserves (which were insubstantial in relation to her liquid liabilities), than on her ability to control the

[1] According to the *Statist* Index Numbers of Wholesale Prices, Britain's rate of inflation in March 1919, when sterling began to float was about 14 per cent. By then, British prices had increased far more than American prices in relation to their 1913 levels.

[2] Public Records Office (PRO) T172/1384 is the well known 'Dear Money' file which provides many insights into policy debates during this period. For a discussion of the debate, see S. Howson, 'The Origins of Dear Money, 1919–20', *Economic History Review (EHR)*, Vol. 27, No. 1, 1974, and *Domestic Monetary Management in Britain, 1919–1939*, Cambridge, 1975, pp. 11–23. The Cunliffe Report recommended severe deflation to restore sterling to the gold standard at the pre-war parity, which the committee, chaired by a former Governor of the Bank of England, assumed rather than established had an incontestable case. See Committee on Currency and Foreign Exchanges after the War (Cunliffe Committee), *First Interim Report*, Cd. 9182, HMSO, London, 1918 and *Final Report*, Cmd. 464, HMSO, London, 1919.

[3] S. Howson, *Domestic Monetary*, 1975, p. 11.

[4] W.A. Brown, *England and the New Gold Standard*, London, 1929, p. 122.

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movement of South African gold and her control over Indian surpluses and reserves. The fact that almost all the gold was sold through the London market meant that it was another line of defence around the sterling. Bear pressures could be deflected away from the Bank of England's slender gold reserves and towards new gold arrivals in London. As long as the major gold producers sought and held sterling, and as long as the collapse of confidence in the sterling was not so complete that new gold arrivals available to foreign monetary authorities and other sterling holders fell short of demand, the Bank of England's interventions could be confined to smaller margins than that of a central bank not possessing a similar advantage. A period of pronounced bear attack not large enough to cause a crisis would then show up in the proportion of new gold arrivals bought by the Bank of England: the smaller its share, the more severe the bear attack, as in the late 1920s.[5]

As we have discussed elsewhere, during the inter-war period, an important British interest with regard to India was to regulate the Indian demand for gold, the availability of which (as primary liquidity) was crucial to Britain's reduced cost return to the gold standard.[6] Britain's ability to influence Indian private gold demands was somewhat hampered by a number of other factors. Nevertheless, in the view of a contemporary observer, '... important as other gold movements were ... it (sic!) was the movements of metal between these three distant parts of the world (South Africa, India and the United States) through the intervention of the London market which are of chief interest and significance in a study of the restoration of the gold standard after the war.'[7]

The working of this objective in relation to India in the years that the rupee was on a managed float (1921–1925) forms the subject of this paper. The paper is organised as follows. The first part briefly sketches the larger external background to Indian monetary and exchange-rate policies between 1921 and 1924. The second part discusses the economic environment facing the Indian economy in these years. The third part discusses the policy environment and takes into account the institutional question related to the method of securing sterling remittances. This was a somewhat contentious issue in relations between Indian monetary authorities in Delhi and Whitehall and sheds some light on Indian exchange rate policies in

[5] The Macmillan Committee pointed out (*Report*, paras 165–66) that in 1930, the Bank of England could buy only 1.41 million pounds out of total gold sales of 44 million pounds. Also see Public Records Office (PRO) T172/1594, note to the Chancellor of the Exchequer dated 22 November 1927 in which Leith-Ross acquaints Churchill with the nature of Bank of England intervention in the London gold market.

[6] See G. Balachandran, 'Indian Monetary Policy and the International Liquidity Crisis during the Inter-War Years', unpublished Ph.D. thesis, University of London, 1989.

[7] W.A. Brown, *England*, 1929, p. 42.

these years. The last section is in the form of a substantive summary and conclusion.

I The Background: The British Liquidity Crisis

When Britain left the gold standard formally at the end of March 1919, war-time controls on the gold market were still in place. South African gold was bought by the Bank of England at the sterling parity price of 77s. 9d. per standard ounce. Exports of gold from Britain, which during the war had faced an informal check through appeals to patriotism, had resumed before they were formally banned at the end of March 1919. But, as sterling depreciated, the Bank of England's official gold price diverged greatly from the price of gold in the world's markets. Protests by the South African gold producers led to an agreement in September 1919 by which, all South African gold continued to be shipped to England and bought by the Bank of England at the sterling parity price of 77s. 9d. and sold at the same price to the refiners. The Rothschilds bought the refined gold and sold it at the market price. The gold producers thus secured the difference between the sterling parity price and the market price. By means of this somewhat convoluted arrangement, the role of London as the international gold market was preserved and the pretence maintained that within Britain, the value of gold had not changed from the pre-war value. In this segregated market for gold, sterling was on par.

However, private exports of gold to India continued to be restricted till June 1920, when it was felt they could be safely lifted. The only restriction that remained thereafter was on the direct shipment of gold from South Africa to India. The deflationary impact of monetary policy in India checked her gold demand in 1920/21 and also brought out some of her hoards.[8] India emerged as a net exporter of gold in 1920/21. Likewise, in the second half of 1920, China also began exporting gold. It was not until September 1921 that India emerged in the London market as a net importer of the metal. These asset shifts on the periphery were consistent with the British aim of maximising American gold absorption. The early movement of gold away from the USA, when she lifted her own gold export embargo in 1919, was reversed after April 1920. So successful were the British efforts to direct gold flows towards the USA that in each month between August 1920 and August 1925, the USA was a net importer of gold.[9]

Why did Britain aim to increase American gold receipts? Briefly, the hope was for a sterling appreciation achieved more by American inflation than by British deflation, especially as the latter was proving to be a source

[8] For a detailed discussion of this episode, see G. Balachandran, *India in Britain's Liquidity Crisis: The Stabilisation of 1920*, London, forthcoming.

[9] W.A. Brown, *England*, 1929, p. 29.

of great domestic contention. The optimistic view was that as USA received gold out of new production, US prices would rise. Besides, USA might be more willing to lend to Europe. Domestic deflation could be avoided and the sterling would rise as long as the British rate of inflation was kept below the American one. Also, as prices rose in the USA, the real value of debt payments would fall. It was a measure of the diminution of Britain's overseas creditor position that far from seeking an anti-inflationary regime, she was seeking to promote an inflationary one.[10]

R.G. Hawtrey, the Treasury economist, was an ardent believer in exporting gold to America. Writing in July 1920 when the tendency of the USA to import gold had not become very pronounced, he said, the only 'alternative to a restriction of circulation in America (was) the sending of gold from here.' The larger the quantities of gold sent, the better it would be. Nothing 'could be more favourable to the economic recovery of the world than generous help from Europe to America' by way of gold exports. The reason for this view was that 'in essence, the export of gold (was) a device for *lowering the world value of commodities.*' It countered American deflation arising from a scarcity of gold, and its tendency 'to *raise* the world value of gold.' The problem with this strategy, Hawtrey correctly foresaw, was that it might increase the demand for gold as a commodity. 'This is particularly conspicuous in India . . . where absorption is expected to be very large.' The Indian gold demand, he warned, might necessitate larger permanent deflation. This was a problem for the future.[11]

The British concern that America should receive large quantities of gold had not diminished a year later. If anything, this concern was compounded by another: despite excess US reserves of $700 million in the middle of 1921, she seemed no nearer to launching an expansionary domestic or international policy. Stressing that continued deflation was disastrous for Britain, Hawtrey said the dollar had to be cheap and stable if sterling was to return to gold.[12] Britain desired inflation, but could not ease credit on her own for fear of its effect on the sterling. Inevitably, the USA had to take the first step and only she had the ability to influence world commodity prices.[13] But Britain could 'hasten in some degree the advent of cheap money in America by sending more gold thither . . . . A substantial consignment . . . would hasten the progress . . . , and the *psychological* effect would be greater in proportion.'[14]

[10] D. E. Moggridge, *British Monetary Policy, 1924–31: The Norman Conquest of $4.86*, 1972, p. 46 and pp. 81–87.

[11] Cambridge College Archives (CCA) Hawtrey Papers, Htry 1/13, 'Return to Gold Standard', memorandum of July 1920; emphasis in the original.

[12] CCA Hawtrey Papers, Htry 1/13, 'Return to Gold Standard', July 1921.

[13] CCA Hawtrey Papers, Htry 1/13, 'The Rediscount Rate of the American Federal Reserve System', undated memorandum, and S. Howson, *Domestic Monetary*, 1975, p. 27.

[14] CCA Hawtrey Papers, 'American Exchange', undated, but July-August 1921; emphasis in the original.

Hawtrey recognised that Britain was pursuing two conflicting objectives: avoid or minimise deflation and return to gold. These 'two objects . . . can . . . be reconciled (only) by a continuation of the inflationary tendency in America.' The USA was moving towards raising her rediscount rates to check inflation and if this was allowed to happen, the tendency of the sterling to appreciate would be checked. Therefore it was best to export gold to USA 'to create a redundancy of currency there.' The payment of debts provided a suitable pretext, but he urged caution so that USA was not provoked into sterilising her gold receipts.[15]

From the latter half of 1920, as she increased her discount rates, the USA began attracting considerable quantities of gold not only from Britain, but also from other parts of the world. Southern and central America ceased importing gold and instead (like India and China) became net exporters. Australia also started shipping gold directly to the United States once she found the Indian demand tapering off. In 1921, besides large gold receipts from London and substantially the whole South African production of the metal, the United States received nearly $250 million of gold from France and Sweden which originated in Russia. Thus US net gold exports of $292 million in 1919 became net imports of $95 million and $667 million in 1920 and 1921 respectively.[16]

This trend continued through 1922 and 1923. Net American gold imports in the former year were $220 million and in the latter year, $241 million. The British share in these US gold receipts was large. In 1920, British gold exports accounted for nearly two-thirds of all gold exported to the USA. In 1921, this proportion fell to about 30 per cent especially as France, Sweden, Canada and the Asian countries emerged as large exporters. In 1922, though France and Sweden together exported nearly 22 per cent of all gold received in the USA, the British share was still significant at about 44 per cent. In 1923, Germany emerged as a major exporter accounting for about a sixth of US gold receipts, yet Britain accounted for almost half of them in that year and some 40 per cent in 1924.

While she could not directly force other countries to boost US gold receipts, Britain could and did try to maximise the empire's gold exports to the USA. To accomplish this, she made efforts to ensure firstly, that South African gold production would not slacken, secondly, that the South African gold would come to London to be sold and thirdly, that other (especially non-monetary) demands on South African gold would be kept to a minimum. As the increase in South African gold production from

[15] CCA Hawtrey Papers, Htry 1/26, 'Export of Gold to America', note dated 3 March 1923. Over 1922–23, Britain exported gold to the USA in payment of her war debts. See W. A. Brown, *England*, 1929, pp. 137–38 and PRO T176/9, Niemeyer Papers, Blackett to Governor, letters dated 4 July and 29 November 1922; Norman to Niemeyer, letter dated 3 August 1923 and Niemeyer to Norman, letters dated 4 August 1923 and 19 September 1923.

[16] Quoted in W.A. Brown, *England*, 1929, p. 117.

7 million fine ounces in 1922 to 9.6 million fine ounces in 1925 shows, Britain was largely successful in her first endeavour. Yet, one outcome of the arrangements made to sustain London as the world's principal market for gold was that, Britain's already fragile control over the South African gold producers weakened further. She had to pay the price of having to allow South Africa to return to the gold standard before the sterling, whose own return was also thereby hastened. Britain's success in her third aim during this period was somewhat mixed and the discussion of it in relation to India is the subject of a separate section. However, the final results of her efforts were disappointing from the British point of view. US inflation was not as high nor as consistent as Britain would have liked it to be, though, till the end of 1922, gold receipts might have mitigated the more severe manifestations of US deflation. Sterilisation of much of her gold receipts prevented domestic US and world expansion, and also, it might have in the end served to increase US gold imports and accentuated the maldistribution of gold which was a problem already haunting Britain.[17]

In some ways, in the absence of an US expansion, gold exports to her were inevitable, whatever the aims of the British policy-makers. Britain continued to import heavily from the USA. Her normal trade exports were not being restored rapidly enough and her trade deficit, although lower than during the war, was still high by historical standards over 1920–25. Further, according to one estimate, although India continued to earn dollars for Britain, she stopped underpinning the British current account position in the degree that she had done before the war.[18] Gold exports were therefore necessary to pay for imports whose non-availability may have postponed recovery. Illustratively, Britain's gold exports to the USA accounted for almost 15 per cent of her current account surplus in these years.[19] The latter, although substantial in most years till the depression, was still lower than her long-term capital exports. The unattractive option of having to borrow short in order to lend in the long-term compelled the British Treasury, supported by sections of British industry, to restrict overseas loans. Even so, Britain's overseas lending consistently exceeded her current account surplus in these years. The checks were relaxed in 1927 but were re-imposed after sterling left gold in 1931.[20] Thus, although Britain's (or Europe's) best hopes in

[17] M. Friedman and A.J. Schwartz, *A Monetary History of the United States, 1867–1960*, Princeton, 1963, pp. 284–85.

[18] J.D. Tomlinson, 'Anglo-Indian Economic Relations, 1913–1928 with Special Reference to the Cotton Trade', unpublished Ph.D. thesis, London, 1977, pp. 217–18.

[19] B.R. Mitchell, *Abstract of British Historical Statistics*, Cambridge, 1962, p. 335.

[20] On Treasury and Bank of England checks on overseas lending, see A. Cairncross and B.J. Eichengreen, *The Sterling in Decline: The Sterling Devaluations of 1931, 1949 and 1969*, Oxford, 1983, pp. 11–23. In 1922, Hawtrey cited the expansion of British overseas lending as evidence of the restoration of the British external position. See CCA Htry 1/13, untitled memorandum written in October 1922. But by June 1923, when the extent of Britain's

relation to US gold receipts may not have been fulfilled, given their (especially British) strategies, requirements and constraints, it is hard to see what else these countries could have done.

In the circumstances when primary liquidity shortages threatened to be an enduring reality for her, Britain tried to reduce the other demands on the world's gold and to make the actual use of the metal conform to her desired use for it. She tried to promote the gold exchange standard on a worldwide basis with this aim in view. The attempts to reduce the non-monetary demand for gold in India was part of the same effort. These efforts to economise on gold were taking place against the background of the sterling's struggle to return to the gold standard at the pre-war parity and London's

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dependence on short-term borrowing to finance her overseas loans became evident, he was forced to change his mind. See CCA Htry 1/25, 'Industry and Overseas Investment', memorandum dated 22 June 1923. After its return to gold in April 1925, Niemeyer linked the outlook for the sterling to the restriction of overseas issues in London. With a current account surplus of 30 million pounds, he said, Britain could not afford to lend money abroad. Foreign lending earned commissions for the City, increased some British current account receipts, and possibly, increased demand for British goods. These were useful advantages, if Britain could 'afford to acquire them.' But, in his view, foreign lending was not, on balance, beneficial to Britain: if the proceeds were spent in Britain, exports were given away for nothing, and if they were spent abroad, which was 'largely the case', Britain might be forced to export gold. Therefore, all borrowers including colonies should be discouraged, 'for we do not want bank rate to be put up.' See University Library, Cambridge, Baldwin 3, 1925 Budget Papers, Niemeyer's note dated 22 May 1925 and another undated note written probably in the same month. Emphasis in the original.

The British Treasury asked the Colonial Office to urge the dominions and colonies 'not to raise loans' in Britain 'owing to the difficulty this might involve as regards the maintenance of the gold standard.' See University Library, Cambridge, Baldwin 93, Amery to Prime Minister, letter dated 6 June 1925.

There was pressure from industry to restrict foreign issues or at least tie them as the French and the Germans were doing. London financiers resisted because of their fear of the effects of such a linkage on London's role as an international capital market. See India Office Library and Records (IOLR) L/F/6/1033, F. 5837, Board of Trade Advisory Council, 'Trade Outlook and Foreign Loans', A.C. 119, 'Written Observations of Members of Council', undated but probably April 1925. F.C. Goodenough, a member of the Finance Committee of the India Office was one of the London financiers who opposed the linkage between borrowing British and buying British. Industrialists welcomed the restriction on gold exports because it favoured the export of merchandise.

It was a measure of the severity of Britain's liquidity crisis at this time that the Treasury should have gone back on the earlier belief that overseas lending helped Britain through promoting global expansion and sought to restrict it (while urging the promotion of US lending).

For other discussions of the British lending embargo, see Henry Clay, *Lord Norman*, London, 1957, pp. 144, 220; L.S. Pressnell, '1925: The Burden of the Sterling', *EHR*, Vol. 31, No. 1, 1978, pp. 78–80; F.C. Costigliola, 'Anglo-American Financial Conflict in the 1920s', *Journal of Economic History (JEH)*, Vol. 37, No. 4, 1977, p. 927; D.E. Moggridge, *British Monetary*, 1972, pp. 206–8; and J.M. Atkin, 'Official Regulation of British Overseas Investments, 1914–1931', *EHR*, Vol. 26, No. 2, 1970, pp. 324–35.

striving to retain her leadership of the international financial system. As much as the rate at which the rupee was stabilised, the timing of the stabilisation was crucial to the battered monetary unity of the empire and the primacy of the sterling. We now proceed to locate the stabilisation policies in India till 1925 in the above context.

II The Indian Economic Environment—1921/1924

By the end of 1920, the stabilisation programme recommended by the Babbington-Smith Committee, formulated under constraints imposed by Britain's own liquidity problems, had failed.[21] The immediate objective of preventing an enormous absorption of gold by India had been achieved. But a price paid for this success was that the questions of a permanent exchange rate for the rupee and long-term Indian gold demands were left unresolved. If anything, the collapse of the rupee in July 1921 to less than 12d. gold (about 15d. sterling) made rupee appreciation a certainty in the long term. As sterling also approached parity, imported gold would seem cheaper in India. This could be expected to accelerate gold imports in the short-term until incomes and prices adjusted to the new rupee parity.

However, the rupee parities were themselves not spontaneously determined. They were the product of a monetary policy designed to secure an appreciation, with target exchange rates determining monetary expansion. In that sense, the rupee was never on a free float till its *de facto* stabilisation in November 1924, but on a managed float. The India Office and New Delhi desisted, for the most part, from exchange market intervention, in order to force the rupee up. In a currency system that largely depended on trade financing for expansion, the absence of intervention (either through the sales of council bills or purchases of sterling), rendered expansion arbitrary. The so-called absence of intervention only meant intervention of a different form with a definitive objective, monetary policy in this period had a pronounced deflationary bias.

1. Prices and Exchange Rates

Consider the movements of prices and exchange rates between January 1920 and December 1925 in Table 1. It is clear that the post-war boom did not peak in Britain till March 1920. The climb to the peak over December 1919-March 1920 was quite rapid. The increase in the rate on Treasury bills from 5 per cent to 6 per cent in early November 1919 did not do much to turn the tide. Over March-May 1920 there was a slight fall in prices and then, a steep fall between May and June 1920. The bank rate in London increased from 6 per cent to 7 per cent in the middle of June 1920, but the immediate effect that it produced on British prices was quite small. The next steep fall

[21] The formulation and failure of this policy is discussed in some detail in G. Balachandran, *India in Britain's Liquidity Crisis*, forthcoming and in 'Indian Monetary Policy', Chapter 3.

occurred after September when it was somewhat more continuous than it had been earlier in the summer. Therefore, though the post-war boom had been checked by May 1920 it was not till the autumn of 1920 that one could detect definite signs of a slump.

Table 1
Prices and Exchange Rates, 1920–1925

M/Y	*1*	*2*	*3*	*4*	*5*	*6*	*7*
1/1920	289	233	202	192	235	174	137.5
2/1920	303	232	203	188	251	203	145
3/1920	310	234	194	180	238	194	135.5
4/1920	306	245	193	172	259	175	139
5/1920	305	247	190	172	244	170	134
6/1920	291	243	192	173	253	158	127
7/1920	293	241	196	175	264	130	105
8/1920	288	231	193	173	258	141	108
9/1920	284	226	188	173	234	139	102
10/1920	266	211	188	176	227	133.5	97
11/1920	246	196	186	176	215	121	85
12/1920	220	179	179	168	214	115	76
Annual Average	**283**	**226.5**	**192**	**176.5**	**241**	**154**	**116**
1/1921	209	170	169	156	212	108	78
2/1921	192	160	164	151	203	101.5	82
3/1921	189	155	163	149	200	96	77
4/1921	183	148	164	150	202	97.5	78
5/1921	182	145	171	159	199	97.5	79
6/1921	179	142	173	165	186	95	76.5
7/1921	178	141	171	166	185	95.5	73
8/1921	179	142	178	176	187	96	70.5
9/1921	183	141	178	177	178	104	80
10/1921	170	142	178	176	171.5	108.5	83.5
11/1921	166	141	173	172	176	103	83
12/1921	162	140	171	166	175	99	82
Annual Average	**181**	**147**	**171**	**164**	**190**	**100**	**78.5**
1/1922	159	138	178	159	168	99.5	86
2/1922	158	141	179	158	158	97.5	85.5
3/1922	160	142	182	160	158	95	86
4/1922	159	143	182	160	158	95	85
5/1922	162	148	187	161	162	94.5	86
6/1922	163	150	183	166	162	98	90
7/1922	163	155	181	165	169	97.5	88.5
8/1922	158	155	178	160	169	97.5	89.5
9/1922	156	153	176	156	170	97	89
10/1922	158	154	177	151	167	97	89
11/1922	159	156	178	150	168	97.5	89.5
12/1922	158	156	176	149	171	99.5	92.5
Annual Average	**159**	**149**	**180**	**158**	**165**	**97**	**88**

Table 1 *Contd.*

M/Y	*1*	*2*	*3*	*4*	*5*	*6*	*7*
1/1923	160	156	179	149	169	100	95.5
2/1923	163	157	180	147	173	102	97.5
3/1923	163	159	181	149	172	101	97.5
4/1923	165	159	178	147	171	100.5	96
5/1923	164	156	177	143	172	101	96.5
6/1923	160	153	175	140	167	100.5	95.5
7/1923	155	151	179	140	163	100.5	94.5
8/1923	155	150	171	135	161	100	94
9/1923	160	154	174	136	166	100	94
10/1923	160	153	174	138	169	101	94.5
11/1923	169	152	177	138	172	104	96
12/1923	170	151	179	145	168	101	96
Ann. Av.	**162**	**154**	**177**	**142**	**169**	**101**	**95.5**
1/1924	173	151	172	142	171	107	94
2/1924	173	152	178	140	186	107	95.5
3/1924	172	150	179	142	209	103	91
4/1924	172	148	174	141	209	104	92
5/1924	168	147	176	141	195	104	94
6/1924	168	145	176	142	200	105	93
7/1924	173	147	179	145	201	106	94.5
8/1924	172	150	180	150	198	109	98.5
9/1924	176	149	179	153	196	107.5	99
10/1924	180	152	181	151	191	110.5	101.5
11/1924	179	153	180	152	181	112.5	105
12/1924	180	157	176	150	185	112.5	107.5
Ann. Av.	**174**	**150**	**177.5**	**147**	**194**	**107.3**	**97**
1/1925	177	160	171	149	185	113	110
2/1925	177	161	172	149	185	112	110.5
3/1925	174	161	168	151	183	112	109.5
4/1925	169	156	169	149	184	111.5	109.5
5/1925	165	155	164	149	183	111	110.5
6/1925	162	157	157	146	175	112	112
7/1925	165	160	160	147	177	113.5	113
8/1925	165	160	157	146	174	113.5	113
9/1925	164	160	158	145	174	114.5	113.5
10/1925	161	158	160	150	174	114.5	113
11/1925	160	158	164	153	173	114.5	113
12/1925	158	157	163	154	169	114.5	113
Ann. Av.	**166**	**158.5**	**163.5**	**149**	**178**	**113**	**111.7**

Note: 1. UK *Economist* index number of prices, 1913 = 100; 2. US Bureau of Labour price index, 1913 = 100; 3. Calcutta index of wholesale prices, July 1914 = 100; 4. Indian export price index, 1913 = 100; 5. Indian import price index, 1913 = 100 (both indices from IOLR, L/F/5/100–101); 6. Rupee-sterling parity (pence per rupee) 7. Rupee-dollar parity (gold pence per rupee: both from IOLR, V/26/302/7, App. VII to App. 3, McWatters' memorandum to HYC, Vol. 2, pp. 33–34).

This coincides with the American experience and supports the view that the autonomous impact of the British bank rate on British prices (as on British capital account in this period) was affected by influences emerging from across the Atlantic. The American post-war peak occurred in May 1920 (though at a lower level) with American prices sloping gently off till July 1920 when there was a plunge. A steep and continuous decline in American prices began in September 1920. There was a strong correlation in this period and till 1931 between American and British prices. This correlation was stronger than that between American and Indian prices or British and Indian prices.

Indian prices however began falling as early as February 1920, though, between March and November 1920 the fluctuations were narrow. The Indian peak which was reached in February 1920 was lower than current American or British prices as well as their respective peaks. Even before December 1919 the slowing down of the rate of growth of Indian prices had become apparent. Indian prices do not seem to have shown much sensitivity to the exchange rate, whatever the lag used. Prices were steady around the 190 mark between March and November 1920 although the rupee fell from about 31d. sterling to about 19d. sterling during this period, which was also characterised for the most part by a downward stability in American and British prices. One possible interpretation is that rupee depreciation protected Indian prices from the more severe effects of the global deflation that was beginning to emerge from the latter part of this period. But the post-November 1920 slump in Indian prices (although it did not last long) took place even as the rupee was falling further. The exchange rate insulation argument could then turn counter-factual to suggest that without a fall in the rupee in the next few months, the slump in Indian prices could have been greater. However, there is no evidence from this period that the policy-makers envisaged the exchange rate as an anti-cyclical instrument. The high correlation between Indian and American prices on the one hand and Indian and British prices on the other and the poor correlation between Indian prices and the exchange rate would also seem to cast doubt upon the above counter-factual hypothesis. Throughout 1921, for example, the small fluctuations in Indian prices did not seem to be related to the exchange rate and if a generalisation could be ventured for so short a period covering small changes, the distinct impression is that Indian prices moved, in relation to the exchange rate, in a manner contrary to that predicted by theory.

Through 1922, 1923 and 1924, Indian prices remained fairly steady around 180, 176 and 177 respectively, even though in 1922 the rupee depreciated slightly in relation to sterling but rose slightly in relation to gold. British prices stayed relatively unchanged while American prices rose about 15 per cent from its post-war trough of January 1922. In 1923, all the indices stayed roughly steady, though there was a tendency of Indian and British prices to rise after August 1923 which was noticed in American

prices. In 1924, British and American prices fell till the middle of the year and rose thereafter, though neither movement was large by the standards of post-war fluctuations. Indian prices roughly corresponded to these movements but the rupee rose quite sharply during the year both in relation to sterling and to gold. In 1925 the rupee reached a parity with respect to the sterling and gold of about 13 per cent above the pre-war 16d. rate. Sterling had returned to gold by now. Indian prices began falling slightly before British prices and bottomed out earlier. Therefore, perhaps, they reflected, in part, the rapid appreciation of the rupee since the middle of 1924. American prices stayed relatively unchanged.

Except for the last quarter of 1924, it is hard to make a valid generalisation of the effect of exchange-rate movements on price stability in India which can be separated from the effects of the price situation outside India.

2. *Foreign Trade*

The revaluation of the rupee in 1920 failed against the background of a sharp adverse movement on the Indian trade account. The Indian trade surplus at Rs. 1260 million in 1919/1920, was about a third higher than the highest trade balance registered during the war in 1916/1917. However, the high rupee (briefly) and the collapse of the post-war boom resulted in large deficits in the following two years. In 1920/1921, there was a trade deficit of Rs. 775 million and of Rs. 209 million in 1921/1922. The next three years registered high and increasing surpluses. At Rs. 900 million, the trade surplus in 1922/1923 was almost as high as the levels reached in some of the war years, though it was well short of the historical peak reached in 1919/1920. The next two years saw the overwhelming of that landmark as well. At Rs. 1440 million and Rs. 1550 million, these balances reflected a surge in the world demand for Indian exports (more than a slackening off of Indian imports) as the world economy began to revive following US expansion and as European stabilisation began to show some signs of success.

The effect of buoyant trade conditions on producers' incomes was mitigated by the behaviour of Indian terms of trade. India's import prices remained consistently—in relation to their 1913 levels—higher than Indian export prices throughout these years except for three months in 1922. It might seem that if one were to ignore the terms of trade shifts during the war and take only the post-war period into account, the terms of trade had moved in favour of India. Undoubtedly, India's terms of trade improved after August 1920, but the improvement stopped in June 1922 whereafter (we are only now entering the period of Indian trade surpluses), they began to deteriorate. Terms of trade calculations are sensitive to the choice of the base year, yet, regardless of the base year used, it would be hard to detect signs of a long-term improvement in India's export prices in relation

to those of her imports during this period. In fact it can be plausibly argued, despite a temporary convergence of the two indices in 1929, that the deterioration in the Indian terms of trade considerably pre-dated the depression. The depression only accentuated the severity of the trend.

No relationship seems observable between the Indian exchange rate and her import prices. Indian import prices rose over January-July 1920 as the rupee was sought to be pegged at 2s. gold and fell sharply thereafter, even as the rupee began to fall. Therefore, Indian import prices even in the short-term, did not seem to have been affected by the exchange rate and though, over brief periods, they rose more sharply than British prices or American prices, on the whole, they seemed to have moved more closely with world prices than in relation to the rupee. There were periods during which a depreciating rupee coincided with falling import prices (January 1921-April/May 1922) while a rising rupee coincided with rising import prices. For a country that played a relatively small role in world trade in respect of most of her tradeables, this is not unexpected and only reinforces the argument that the impact of a revaluation might have been stronger on incomes than on the prices of imports and their substitutes.

The lack of association between Indian trading prices and the exchange rate along the lines suggested by theory may imply that, rather than the exchange rate having the power to influence the terms of trade even in the short run, it was the exogenously given demand and price conditions which determined the terms of trade and further, they caused movements in the exchange rate in the directions they did. The tendency for a rise in the rupee would have been strengthened by buoyant export prices (the period from August 1923 and September 1924 is a good example) while a rising rupee may have coincided with falling export prices because of the effects of a contractionary monetary policy (as for example over June 1922 and November 1923).

3. Money Supply

Even a cursory glance at the circulation of gross coin and notes in India over 1920–1925 reveals the fact that the accent of monetary policy in India was to check the growth of the former. Archival evidence reveals that the official aim was to secure an appreciation of the rupee. Consider for example Table 2 which encapsulates the increase in the Indian currency circulation during the First World War and the post-war period in relation to the trade balance.

It is easy to see that the steady growth in the volume of gross coin and note circulation in line with large trade surpluses was reversed after January 1920. The immediate reason for the fall in circulation that took place in 1920 was the attempt to stabilise the rupee at 2s. gold, through the sale of reverse councils. As a result of these reverse sales, gross circulation of note

Table 2
Trade Balance and Currency Circulation, 1914–1925

Year	*Trade Balance*	*Gross Coin and Note Circulation*	
		September	March
1914/1915	437	605	616
1915/1916	654	638	677
1916/1917	955	715	864
1917/1918	921	1084	998
1918/1919	848	1344	1535
1919/1920	1260	1719	1745*
1920/1921	−775	1576	1661
1921/1922	−209	1784	1748
1922/1923	900	1808	1747
1923/1924	1449	1792	1858
1924/1925	1551	1792	1842

Note: All figures in Rupees Million.
* Rs. 1851 million in January 1920.
Source: *Report of the Controller of Currency*, Government of India, various years.

and coin fell from Rs. 1851 million in January 1920 to Rs. 1576 million in September that year. Thereafter, there was an expansion which was especially pronounced in the slack season and which lasted till September-October 1921.

Even if the fall in coin and note circulation over September 1921-March 1922 is attributed to the trade deficit, the rough stability of the September coin and note circulation figures between 1921 and 1924 and those for March 1922 and 1923 on the one hand and 1924 and 1925 on the other requires comment. The three years between March 1922 and 1925 were good years for Indian trade with large and rising, even unprecedented, surpluses. But the monetary trends do not conform either to expectation or to previous experience.

Over 1922/23 there was an actual fall in gross note and coin circulation during the peak season despite a large trade surplus. There was some slack season expansion between March and September 1922 followed again by peak season contraction between September 1922 and March 1923. Hence, the March circulation in 1922 and 1923 remained unchanged at about Rs. 1748 million. There was some expansion again in the 1923 slack season (March 1923 and September 1923). The expansion in the following peak season (1923/24) was through issue of emergency currency that was withdrawn at the end of the season. This withdrawal accounted for the September 1924 gross circulation figures returning to the September 1923 level. A similar policy was adopted in the next peak season. The upshot of this was that gross coin and note circulation expanded hardly at all between

September 1921 and September 1924 and only slightly between September 1921 and March 1925 despite large and rising trade surpluses.

III The Policy Environment

That the aim behind this contractionary monetary policy was to secure a rupee appreciation is evident from the Finance Department records of the India Office and the exchanges between Whitehall and New Delhi on exchange rate policy. Both sides agreed on the need to raise the rupee, though there was no coherent view consistently held regarding why it was necessary to secure an appreciation of the rupee beyond the pre-war rate of 16d. gold.

By autumn 1921, the India Office had come round to the view that action was needed to appreciate the rupee through the continued suspension of council bill sales. Until these sales resumed, and thereafter to the extent left unfinanced by them, home charges were to be mét by borrowing in London and contraction of the Paper Currency Reserve. The latter technique of placing the Secretary of State in funds was referred to as remittances through the reserve or transfers from the Paper Currency Reserve. Table 3 shows the method of financing the Indian home charges between 1921/22 and 1924/25. As is evident, almost 45 per cent of the sterling expenditure was financed through borrowing,[22]

Table 3
Home Charges Financing, 1921–1925

Year	*1*	*2*	*3*	*4*	*5*
1921/22	42.8	—	2.5	27.1	14.8
1922/23	40.9	4.77	—	3.3	31.3
1923/24	39.9	23.13	—	5.64	17.5
1924/25	61.9	41.5	—	1.7	18.5

Note: All figures in million pounds sterling.
1. Total sterling expenditure; 2. Net sales of council bills; 3. Remittance through the reserve; 4. Recoveries from the War Office on account of Indian expenditures in the war; 5. Sterling debts incurred.

Source: IOLR, L/F/5/100, Finance Department Statistics, pp. 205–6.

[22] This fact, more than the actual size of the debt, needs to be borne in mind when discussing the public debt policies of the Indian government in the inter-war period. N. Charlesworth, 'The Problem of Government Finance in British India: Taxation, Borrowing and the Allocation of Resources in the Inter-war Period', *Modern Asian Studies (MAS)*, Vol. 19, No. 3, 1985, pp. 521–48, implies that in view of the size of India's external debt in these years, the difference between Indian and Japanese public debt policies was insignificant. But he ignores an important reason for the size of India's sterling debt in this period. Only some of the debt was productive. Capital expenditure formed only about 25 to 40 per cent of the total sterling expenditure in Table 3 and in only one of these four years (1924/25) was it greater than the sterling debts contracted. In 1922/23 and 1923/24, sterling debts were about 31.3

In the early months after the stabilisation of the rupee failed, the 2s. gold parity continued to be regarded as the target exchange rate on the basis of which intervention policy was to be conducted. The Secretary of State reminded the Indian government that '2/-(gold) rupee remain(ed) (the) declared objective of policy.'[23] A year later, the India Office continued to hold to this view. Till a renewed attempt at stabilisation could be made, the policy of non-intervention in regard to exchange 'consistent with the discharge of sterling obligations . . . .' should be continued.[24]

From January 1923, the question of achieving a rupee appreciation merged with that of the location of the sterling purchase operations of the Indian administration and there were minor skirmishes between Delhi and Whitehall on this subject. To an extent, the timing of sterling purchases and, therefore, the object of securing an appreciation of the rupee was affected by this dispute, though, as we argue later, the shared India Office–Government of India objective of achieving a permanently higher rate for the rupee than 16d. gold kept the dispute from getting out of hand.

1. The Sterling Purchase Controversy and Exchange Rate Policy

Since early 1920s, the Secretary of State had not sold council bills either because there was no demand for them, or in order to enable the rupee to recover from the depths to which it had plunged in 1921. During this period, Indian obligations in London had, as we have seen, been met out of War Office disbursements to the India Office, sterling loans and remittances from the reserve.

Towards the beginning of 1923, the India Office was faced with what it saw as a challenge to its financial powers from the Government of India. Both the India Office and the Government of India were in broad agreement on the need to achieve a steady appreciation of the rupee and saw their abstention from exchange market intervention as securing that aim. But the deflationary consequences of the revaluation process including the effect on trade of stringency in the market for rupees led to growing

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million pounds and 17.5 million pounds respectively. But sterling capital expenditures were only about 10.5 million pounds in each of these two years. A substantial part of the debt was raised to finance fixed current account obligations, in a policy environment in which normal trade financing through sterling acquisitions were kept in abeyance to promote an appreciation of the rupee.

[23] IOLR L/F/6/1088, F. 2149 Secretary of State to Viceroy, telegram dated 16 September 1921.

[24] IOLR L/F/6/1088, F. 2149, minute by Kisch dated 5 August 1922. Given the large, even overwhelming role in relation to the rupee that the Secretary of State played in the exchange market, his abstention could hardly be regarded as enabling the market to adjust spontaneously to normal trading conditions or as not constituting intervention. On the contrary, the abstention was a temporary measure aimed at securing an appreciation of the rupee and therefore was a form of intervention designed to fulfil the purpose in view.

opposition within India to the government's monetary policy. Partly in response to this criticism, but partly also to seek greater freedom of action in regard to what was seen as a purely administrative question not involving questions of high finance, the Indian government started buying sterling directly in Bombay from the exchange bankers. In justification, it argued that the normal scale on which council bills were sold made their resumption inconsistent with the revaluation objective. Therefore it wanted to effect 'quiet purchases of sterling when opportunity offers' since more sterling could be bought thereby than if councils were reopened, with a smaller effect on the rupee.[25]

The Indian initiative was well timed. If the India Office did not sell council bills because it wished to strengthen the rupee, it would have conceded the battle over remittances to the Government of India without a fight. On the other hand, the India Office could not hope to drive the Government of India out of the market by underselling rupees, without endangering longer-term exchange rate targets for India. So the Secretary of State told Delhi that purchases in India could not be the only method of acquiring sterling and, reversing previous policy, said, remittances could not be subject to exchange rate stability. He announced that council bills would be sold as long as exchange rate variations remained small.[26]

Basil Blackett, who had moved to Delhi from the British Treasury to become the Finance Member of the Government of India, was the initiator of the changed procedure. His move upset the India Office for several reasons. Firstly, Blacket's timing as we have pointed out, gave the India Office little room for manoeuvre.[27] Secondly, he was no ordinary civil servant in the Indian cadre. A former high-flier in the Treasury, his experience and contacts within the Whitehall establishment and in the City made him a tougher adversary than his predecessors. The India Office was a 'bit afraid' of Blackett and puzzled about his aims.[28] There was also little

[25] IOLR L/F/7/468, F. 16; Viceroy to Secretary of State, telegram dated 23 April 1923.

[26] IOLR L/F/7/468, F. 16; Secretary of State to Viceroy, telegram dated 1 May 1923. The Secretary of State, in the event, failed to carry out his threat. Over the next two years, sterling purchases were largely through operations conducted by the Government of India. Of government remittances of 21.84 million pounds in 1923/24, 13.1 million pounds represented Indian purchases. For 1924/1925 the corresponding figures were 40.77 million pounds and 33.19 million pounds respectively. Source: IOLR V/26/302/7, Appendix 3 to Report of Hilton-Young Commission, Vol. 2, McWatter's memorandum, App. II, p. 25.

[27] While on this point, it may be useful to note that his timing might indicate that the India Office had something approaching a target exchange rate. Given his own sympathies for the revaluation cause, Blackett's confident expectation that the India Office would not endanger this target would also suggest why he acted when he did.

[28] IOLR Mss. Eur. E397/22; Cook to Blackett, letters dated 26 April 1923 and 3 May 1923. It was not till his gold standard proposals in 1925, which the India Office seized eagerly to isolate him, and the dispute over the Reserve Bank of India Bill in 1927, that the India Office felt confident of its ascendancy over Blackett.

by way of argument that the India Office could advance in support of its position that sterling purchases, which were only an agency function and did not involve the powers of the Secretary of State, had to be handled by itself. To make matters more difficult for them, Blackett had guarded his flank by securing the support of the Governor of the Bank of England who, while counselling caution, supported Blackett on remittance policy. An Indian Finance Department official under Blackett who was on home leave wrote, after a meeting with Norman, that the latter was looking ahead to a time when, with growing self-government in India, India Office control over Indian finance would disappear. Norman was anxious that a national government should not break away from London in financial matters. He therefore wanted to 'forge such bonds' as will keep India within the Imperial (which the official clarified meant the Bank of England's) orbit. To this end, in 'matters of form, and also . . . in agency business, he is willing . . . to make all concessions, so long as he knows that the B[ank] of E[ngland] will be the power behind.' Though Norman's motives might not have coincided with Blackett's, his correspondent assured him, there could be a temporary alliance between the two.[29]

Evidence does not reveal that Blackett saw his moves as a step towards securing monetary autonomy for India, though, a man of his experience may have resented having to refer every policy decision to Whitehall for approval, and it may have suited the India Office to react to Blackett as if he were threatening the powers of the Secretary of State.[30] Writing to Hawtrey in the course of this dispute, he complained that 'so long as the pedants and old fogies at the India Office sit on the reserves and control the practical working of the Indian currency system, I see no easy prospect of doing any thing effective in regard to exchange.'[31] What this suggests is that, despite his possible pique at constraints on his freedom of action imposed by the financial relationship between Delhi and Whitehall, Blackett shared similar goals as the India Office.[32] A gradual rupee revaluation was one such goal.

[29] IOLR Mss. Eur. E397/22; Cook to Blackett, letter dated 13 June 1923. Also see his letter dated 7 June 1923. Blackett had also secured Baldwin's support. See Mss. Eur. E397/20; Baldwin to Blackett, letter dated 1 May 1923.

[30] The letters from Cook warn Blackett against seeming to question the statutory powers of the Secretary of State because, among other things, it would strengthen the India Office campaign against him.

[31] CCA Htry 1/3/1; Blackett to Hawtrey, letter dated 1 May 1923.

[32] Blackett also shared broader London aims and saw, more clearly than any other civil servant in this period, that the financial realities of Britain's post-war position threatened her survival as an Imperial power. Writing to Benjamin Strong, the Governor of the New York Federal Reserve Bank, he complained that the British government was spending too recklessly: if they did not save, they will lose the markets of the Empire and never be able to reduce internal debt nor lend abroad; Britain must lend to Europe if it must recover and to the Empire if it must remain British, but crucial to this was her ability to save. See IOLR Mss. Eur. E397/32; Blackett to Strong, letter dated 21 December 1927.

Blackett also realised that exchange market intervention through council bill sales, because of the scale of those operations and the notice given of them, tended to retard the appreciation of the rupee. As remittances were delayed to allow the rupee to rise steadily, monetary authorities, encountering Indian opposition, could either forsake revaluation for remittances or continue as before to finance obligations in London through loans and contraction. Apart from objections in India to the latter course, Indian loans were already proving unpopular in London. This was added to the fact that the British government had begun to discourage foreign issues in the London market. Therefore, Blackett's method provided a way of securing remittances while not threatening the objective of a rupee appreciation. Thus, Blackett's remittance policy was above all an ingenious method of reconciling two conflicting objectives. The India Office, however, felt that the Government of India was seeking greater freedom of action for itself. To the extent it could present the latter in a bad light in the City, it would strengthen the India Office's hands. Nevertheless, its reluctance to let go her control over any aspect of monetary policy was significant.

An important part of the Government of India's argument for buying sterling in India was that for any given level of remittances the procedure suggested by New Delhi would produce a smaller depressive effect on the rupee. The India Office was not convinced of this argument.[33] It admitted the need to avoid an excessively rapid rise in the rupee and subject to this aim, offered to supplement council bill sales with sales of intermediates. The Indian government persisted in arguing that only Indian purchases could stop the 'compelling urgency' of rapid rupee appreciation that would have disorganised trade.[34] According to the Government of India, the question was 'simply, how to effect remittances at the most favourable rates to the finances of India . . . .' The future currency policy bore only a 'remote connection' to this question and the 'best rates' were 'secured by keeping supply well behind ... demand, i.e., by restricting Council sales when demand is not very insistent . . .' but ready to take advantage of rising demand.

The argument that the timing of sterling purchases, though its aim was to secure the 'best rates' possible for the Government of India, was unrelated to future currency policy, is a surprising one. It was clearly a weak case to argue that securing the 'best rates' would not require an adjustment of the economy to a gradual revaluation and that the latter would not produce adverse effects on the economy comparable to the favourable ones temporarily produced on government finances. If the Indian government suggested that a gradual rise would not have adverse contractionary effects,

[33] IOLR L/F/6/1047, F. 2410, Secretary of State to Viceroy, telegram dated 6 February 1923.

[34] IOLR L/F/6/1047, F. 2410, Viceroy to Secretary of State, telegram dated 5 February 1923.

then the argument was limited to brief periods and as long as the markets did not form expectations of a steady appreciation. Further, monetary policy in this period was not passive and the rupee parity was being determined not exogenously to the monetary policy apparatus but to a certain extent by it. Moreover, the measure of gradualness suggested by the Government of India—at the lowest, an increase of 1/8d. a week—represented an appreciation of about three-quarters of a percentage point each week, or about 15 per cent in a normal busy season. In practice, revaluation of this magnitude was not achieved, though an appreciation of about 4 per cent (above 16d.) within six weeks and of 6 per cent in a single month took place in the 1923–1924 busy season.

Over February-May 1923 the New Delhi-London exchanges on the sterling purchase question continued, with New Delhi persisting with its argument that Indian purchases were better designed to take advantage of a rising rupee and sustain it, while sales of council bills would depress the rupee. The India Office sold small amounts of council bills during 1923 since, as it pointed out, such small sales did not depress the rupee. This was a far cry from the earlier India Office position that remittances could not be subject to an exchange rate policy and indicated the hastiness of the earlier position.[35]

In the 1923/24 busy season, Delhi and Whitehall agreed that council bills (in London) or rupees (in India) would be sold only on a rising market. But the latter seemed less inclined than the Indian government, to be rigidly bound to amounts and rates.[36] London wanted to avoid giving the impression that intervention would not occur below 17d. although New Delhi was keen that no council bills should be sold below that rate.[37]

By April 1924, the India Office began to suspect that Blackett would use his new powers of intervention to upstage the India Office in regard to the determination of a permanent exchange rate. An India Office minute emphasised that during one week in April 1924, the Indian government had purchased sterling within a narrow spread, at rates ranging between 16¾d. and 16 13/16d. These purchases, the minute argued, were heavy for one week and violated London's instructions to buy only on a rising market. The minute conceded that there was need for substantial remittances to be obtained but 'in fact the method in which the G[overnment] of I[ndia] have operated for some time past raises a suspicion that they may tacitly have adopted [the objective] of attempting . . . temporary stabilisation around a

[35] IOLR L/F/6/1047, F. 2410, Viceroy to Secretary of State, telegram dated 31 August 1923 and Secretary of State to Viceroy, telegram dated 5 September 1923.

[36] IOLR L/F/6/1047, F. 2410, Secretary of State to Viceroy, telegram dated 5 December 1923.

[37] IOLR L/F/6/1047, F. 2410, Secretary of State to Viceroy, telegram dated 12 February 1924 and Viceroy to Secretary of State, telegram dated 21 February 1924.

series of arbitrary points, first 1/5 1/5 then 1/5 and now 1/4 3/4.'[38] Thus, this little subplot, concerning sterling purchases, was being played out against the background of a consensus between the India Office and the Government of India that the long-term aim of policy was to secure a substantial, if gradual, appreciation of the rupee. The India Office hoped initially that, by disavowing any intent to use remittances to secure a rise of the rupee, it could appear less vulnerable to Blackett's threat to its powers to sell council bills. But, when a confident Government of India called the India Office's bluff, the latter resumed emphasising the need to secure an appreciation of the rupee. Thereafter, remittance operations once again became explicitly subject to the target exchange rate.

2. *Exchange Rate Policy*

In January 1923, the rupee reached 16d. sterling (about 15d. gold) and, after staying there almost throughout 1923, showed signs of rising towards the end of the year. Reacting to pressures from Indian politicians and businessmen to stabilise at that level, Blackett told the Associated Chambers of Commerce in Calcutta that a 16d. rupee would encourage speculation. Gold would begin to look cheap, bullion would be imported and India would have the problem of an 'appreciated exchange'. He also told the predominantly British members of the Chamber that if India stabilised before Britain, she would be subject to American monetary policy influences. Deflation in the USA would lead to contraction in India.[39]

The above was a veiled admission of the motivations underlying currency policy in India during the period of the rupee's float. Consider the case of a country that faces upward pressures on its currency. With fixed exchange rates, these pressures would cause it to accumulate reserves, as it bought foreign exchange or gold to keep its currency within the margins around a fixed par. On the other hand, if the currency was floating, there need not be any increase in reserves, unless the central bank desired to check the rate of appreciation. In effect, Blackett was implying that a decision to stabilise the rupee would lead to larger gold imports, especially (though he left this unsaid) if the Americans inflated their economy, as they were widely expected to do. Further, should the European economies expand under the influence of larger capital receipts from the USA, prices

[38] IOLR L/F/6/1047, F. 2410, minute by Carter dated 15 April 1924.

[39] CCA Hawtrey Papers, 1/3/1, text of Blackett's speech dated 4 December 1923. It was symptomatic of the doublespeak that bureaucrats, including Blackett, routinely indulged in that he should have talked of the problems of an 'appreciated exchange' and of an US deflation in the same breath. If the US deflated, Indian gold imports would have diminished. What was more in prospect at that time, as any insider within the London financial establishment would have known, and what was more feared in the context of a stable rupee was a rise, if not of US prices, at least of US lending abroad.

in Europe and Indian exports to the reviving industrial economies could rise. The impact of this expansion on producers' incomes in India would lead to increased private gold imports especially if the prices of India's traditional imports, like cotton cloth, remained high. In the same way as in 1920, but to a much smaller extent, the hope was that, even if an Indian revaluation did not reduce private gold absorption through its effect on incomes, it would nevertheless cheapen Indian commodity imports so that, in the short-term, they might be substituted for gold imports.[40]

Despite Blackett's expressed concern, about deflation in India (under fixed exchange rates) arising from a fall in world prices, the process of securing an upward movement of the rupee itself involved a process of contraction and after October 1924, an autonomous fall in Indian prices. This decline was justified on the grounds that it was a 'natural and . . . inevitable concomitant of a policy which, whatever other aims it may have, is certainly directed towards raising the rupee exchange at least to ¼d. gold.'[41]

These views were also shared by New Delhi. 'If we are to make sure of a minimum' of 16d. gold, a Government of India telegram said and 'still more if we are to contemplate that . . . the final level of the rupee may be above . . .' that figure, 'a certain amount of special stringency is unavoidable, since the result of liberal additions to the currency must militate against the

[40] The connection between the trade and the liquidity questions can be highlighted by drawing on a historical parallel. B.R. Tomlinson points out that the major British interest in the post-1947 sterling balance negotiations between the British government and the Government of India was to ensure that the latter did not use sterling reserves to finance capital good imports from Britain as they were required to overcome Britain's post-war dollar shortage. She preferred exporting consumer goods to India. See B.R. Tomlinson, 'The Sterling Balance Negotiations, 1947–49', in A.N. Porter and R.F. Holland eds., *Money, Finance and Empire, 1790–1960*, London, 1985, pp. 142–62. Tomlinson uses this to refute the nationalist and Marxist view that Britain sought to tie independent India's development to British industry. His evidence merely proves that Britain was unable, because of her dollar shortage problem, to achieve this objective rather than that she did not wish to. If we see Britain's post-war problem in terms of a simple two-sector model, the issue becomes clearer. If all consumer goods are domestically consumed (India being in the sterling area and already possessing accumulated sterling reserves from past exports to the USA putting her in the domestic market for this purpose) and capital goods are the only tradeables, capital good exports correspond to the domestic savings of the economy needed to overcome a payments crisis. India's imports of capital goods would have affected the ability of the British economy (till further capacity was created, which itself was problematic) to export them for payment in scarce dollars and would, in the circumstances, have been as if British investment (and so British absorption) was being increased by the extent of Indian investment. In one respect, because these Indian investments would have set up an output stream displacing British consumer good exports, they would have been worse. The parallel with gold in the inter-war period is quite close. In the British scheme of things in relation to the composition of Indian imports, gold occupied a position in the inter-war period similar to that occupied by capital goods in the early post-war years.

[41] IOLR L/F/6/1066, F. 3729, memorandum by Kisch dated 24 July 1924.

appreciation of the rupee.'[42] This view was expressed in response to the demand by Indian businessmen that the government ease monetary stringency. In the 1923/24 busy season, the Indian currency authorities had issued temporary currency and withdrawn them as soon as the season was over.[43] Even the policy on temporary currency in the peak season, the Indian government asserted, was inseparable from exchange-rate policy. These additions to currency would be made, only if the rupee was not affected.[44]

By the time the 1924/1925 busy season opened, Delhi began to contemplate a *de facto* stabilisation of the rupee. After the rupee touched 16d. gold, Blackett tried to scotch pressures for stabilisation at that rate by declaring that the interests of the 'consumer' and the 'tax payer' had to be considered to see whether a rate higher than 16d. gold would not be more suitable to Indian interests.[45] This was the first public admission that New Delhi was seeking a higher parity than the pre-war one and as was to be expected, it produced protests in India.

These protests led the Government of India to propose to London that a decision should be taken on the level at which the rupee was to be pegged. It considered that the time had come 'when we should definitely decide against any attempt to push the rupee above eighteen pence . . . .' It said that the public had begun to realise that the market was tight because of induced contraction and opposition to the government's monetary policy was growing. The government expressed the belief that, even if it wished, it could not refuse to provide additions to currency, without provoking a financial crisis. Moreover, the rupee loans programme of the government required that the market be kept easy. Therefore, Delhi proposed that the rupee be capped through sales of council bills, sterling purchases and currency expansion. As long as price stability was not endangered, which

[42] IOLR L/F/6/1066, F. 3729, Viceroy to Secretary of State, telegram dated 16 August 1924. The gold parity of the rupee had risen 7.5 per cent during the slack season and breached the notional 16d. gold ceiling towards the end of September.

[43] As we have seen, the gross circulation of coins and notes at the end of the slack season in 1921, 1922, 1923 and 1924 was largely unchanged. The difference between the first two of these four years and the last two was that in the former period, gross circulation fell through the busy season but expanded after May only to contract again as soon as the busy season began. In the case of the latter two years, emergency additions to the currency ensured some busy season expansion, though the expansionary trend was by no means uniform. There is little direct evidence that the ostensible Government of India concern over inflation played a role in determining exchange rate policy, though from time to time, the India Office supplied price statistics to support a revaluation case. The price argument was advanced after the decision to gradually revalue the rupee was taken. In any case, slack season expansion, by encouraging speculative stock-holding could only have led to increased prices.

[44] IOLR L/F/6/1066, F. 3729, Viceroy to Secretary of State, telegram dated 16 August 1924.

[45] Government of India, Central Legislative Assembly, *Proceedings and Debates*, Blackett's reply to Purushottamdas Thakurdas, 19 September 1924.

according to this view could happen only if the sterling depreciated further in relation to gold, the general policy should be to 'fix in our own mind an eighteen pence sterling as the figure at which we desire to stabilise the rupee' and thereafter wait till sterling was on par to fix the rupee by statute.[46]

Several points stand out in the above communication. Firstly, however much New Delhi and Whitehall were committed to contraction in order to secure a revaluation of the rupee, there were political and technical limits to the process which affected Delhi more directly than Whitehall. Secondly, the reference to stable rupee prices and the threat to stability considered, i.e., a fall in the rupee in line with the sterling, suggests that a fall in Indian prices was not worthy of attention. In fact, between October 1924 and June 1925, Indian prices fell 14 per cent when US prices were stable and British prices fell only 6 per cent, but that did not produce any change in government policy.[47] Lastly, it is worth remarking that New Delhi had already decided to dig its heels in at 18d. sterling (leading to 18d gold). The Government of India bureaucracy had managed to produce an exchange-rate appreciation (by the end of 1924 the rupee had appreciated 12 per cent in relation to sterling and about 5 to 7 per cent in relation to gold) which, they would claim some months later to the currency commission, represented the equilibrium rate for the rupee. An anticipation of this argument is to be seen in the above Indian communication.

The India Office was opposed to any attempt to stabilise the rupee at 18d. through unlimited sterling purchases, ostensibly because it would anticipate the outcome of a future committee.[48] However, Delhi was adamant and suggested that the rupee could not be appreciated further without damaging Indian exports and evoking fiercer protests in India. The money markets in India were tight and gripped by uncertainty regarding the exchange rate. No committee, the communication asserted, would suggest a higher parity than 18d., as it would affect Indian exports and Indian industries. Further, stabilisation was desirable now because '. . . the present moment offers an opportunity, which may not recur, of obtaining general acquiescence, even in Bombay, in a policy which will give us a permanently higher rate than one shilling four pence gold.'[49]

At no stage in these communications is it explained why the India Office and the Government of India were so keen to ensure a 'permanently higher

[46] IOLR Colln. 375, F. 1, L/F/7/2272, Viceroy to Secretary of State, telegram dated 8 October 1924.

[47] See Table 1. Also see IOLR L/F/7/2292, Colln. 375, F. 1, Viceroy to Secretary of State, telegram of 5 November 1924 admitting to the fall in Indian prices.

[48] IOLR L/F/7/2272, Colln. 375, F. 1, Secretary of State to Viceroy, telegram dated 10 October 1924.

[49] IOLR L/F/7/2272, Colln. 375, F. 1, Viceroy to Secretary of State, telegram dated 11 November 1924.

rate' than 16d. gold. Further, when Blackett was being somewhat presumptuous when he suggested that stabilisation at 18d. would secure Bombay's support. His presumption was based on the fact that some sections in Bombay would be inclined to accept an 18d. rupee as the price of restoring some automaticity to the currency system and taking currency expansion decisions out of the hands of bureaucrats in London and Delhi.[50] Blackett had also cultivated the image of personal independence vis-a-vis Whitehall through his handling of remittance policy. He now used this image to secure a position of greater authority with Indian currency opinion. Writing to urge Purushottamdas Thakur to drop two bills that sought restoration of the 16d. parity, Blackett warned him that by pursuing his motion, he would play 'into the hands of the India Office, who have always, until I became Finance Member, regarded themselves as the Principals and the Government of India merely as their agents in exchange operations.'[51]

The India Office stuck to its positions and throughout the busy season of 1924/1925, discussions continued between the Government of India and the India Office on the subject of busy season stabilisation. It would be tedious to follow the minutiae of the communication in any detail. Essentially, the Indian Government position was based on the need to ease stringency in the markets in India (to take the sting out of Indian business protests and to secure the government loan programme) and the belief that further revaluation would extract a high political price and cause excessive distress to trade. By the end of 1924 the Government of India had come around to the opinion that it was politically necessary to propose a currency inquiry. The currency authorities would then have the advantage, it felt, of being able to determine the composition of the committee such that it reflected their own views. If the committee was delayed it might eventually have to be comprised of members 'much less suitable than the ones we desire.'[52]

The essential India Office position was somewhat less consistent. Their reasons involved avoiding any limit on the freedom of action to decide the peg, though why this freedom of action was to be desired was never spelt

[50] IOLR L/F/6/1076, F. 2558, note by Kisch to A. Hirtzel dated 30 May 1925. Kisch reacting to a Government of India telegram suggesting the above remarked, the 'disposition even in Bombay to compromise is noteworthy.' For another example of the revaluation-automaticity trade-off by Indian businessmen, see NMMA PT Papers, File 55, Part 1, Thakurdas to Gandhi, letter dated 27 February 1927.

[51] NMMA PT Papers, File 47, Part 2, Blackett to Thakurdas, letter dated 28 July 1924. He did not give any reasons for his fear. But Bombay businessmen thought the Indian government's freedom of policy was not real. See IOLR L/F/6/1076, F. 2588, Indian Merchants Chamber to Secretary, Government of India, Finance Department, letter dated 21 May 1925.

[52] IOLR L/F/7/2272, Colln. 375, F. 1, Viceroy to Secretary of State, telegram dated 5 November 1924, Part 3 and Viceroy to Secretary of State, telegram dated 14 December 1924.

out in clear terms. The threat to 'internal price stability' of an early peg was suggested from time to time though at one stage, the India Office also claimed to be waiting for a climate of rising prices before stabilising the rupee.[53] Despite its opposition to either *de jure* or *de facto* stabilisation, the India Office was keen to ensure that the Government of India accepted a level around 18d. as the floor for the rupee.[54]

The India Office recognised that the Indian government did not seek to stabilise the rupee in advance of the sterling's return to gold but felt that it was envisaging 'the ultimate rating of the rupee with a greater degree of precision than at present suggests itself to us.'[55] This was not acceptable in view of unstable world conditions which, shorn of exaggeration, meant that the sterling had not returned to gold. Kisch laid down three conditions that would have to be satisfied before a rupee stabilisation could be considered: a 'substantial export balance', sterling's stability after it returned to the gold standard and the stability of world prices.[56] But despite the best efforts of the India Office, the rupee stayed at the level at which it had been when Kisch wrote his above note. The rupee touched 18d. in October 1924 which translated into 18d. gold when the sterling returned to gold in April 1925. During the 1925 peak season the rupee was held at that rate, despite the India Office desire for a further appreciation, largely at New Delhi's

[53] In 1922, Kisch wrote an internal India Office riposte to Stanley Jevons' plea for an immediate rupee stabilisation, in which he said that the move would be unsuccessful unless world prices were rising. So, the appreciating rupee, in terms of this argument, was not intended to secure price stability unless we assume that, underlying Kisch's argument was the aim that the rupee when stabilised, should be overvalued. For only an inflationary environment would enable stabilisation at an overvalued rate.

[54] IOLR L/F/7/2272, Colln. 375, F. 1, Secretary of State to Viceroy, telegram dated 15 October 1924. IOLR L/F/6/1047, F. 2410, minute by Kisch dated 28 February 1925 suggested that in the forthcoming slack season, as demand for rupees slackened, sterling should not be bought below the peak season rates. The India Office wanted to ensure that the Government of India did not act to keep the rupee down during the slack season. Secretary of State to Viceroy, telegram dated 21 April 1925 presumed this was the case. As Baxter in his minute of 30 April 1925 pointed out, this presumption 'was only a gentle way of making a stipulation.'

[55] IOLR L/F/7/2272, Colln. 375, F. 1, Secretary of State to Viceroy, telegram dated 15 October 1924.

[56] The last condition was really another way of stating the second one. IOLR L/F/6/1047, F. 2410, 'Notes on the Present Position of Indian Exchange with Reference to Recent Telegraphic Correspondence with the Government of India,' dated 14 November 1924. Incidentally, Kisch's apparent scepticism regarding the sterling's ability to remain on gold upon its return, evident in the above note, did not prevent him from recommending, earlier in 1924, that Indian reserves be invested in sterling securities, that, by Kisch's own admission, could depreciate. Secondly, scarcely months after sterling returned to gold the India Office was suggesting to the Hilton-Young Commission that a peg to gold was identical to a peg to the sterling. The constant shifting of the goal posts in pursuit of specific objectives as the earlier arguments advanced to justify them became invalid, characterised India Office, and to a certain extent, Government of India attitudes towards monetary policy in India in the inter-war years.

insistence. The rupee showed signs of weakness after March 1926 which necessitated reverse sales and currency contraction again. Nevertheless, the Hilton-Young Commission (1925–26) decided to stabilise at the prevailing 18d. parity.

IV Summary and Conclusion

It is now necessary to secure a perspective of what the primary sources reveal. First, the Indian monetary authorities in London and Delhi recognised that the 18d. rate was achieved through severe contraction.[57] Second, the argument that a rupee appreciation merely signified the desire of the Indian government to reduce the cost of sterling transfers is unsatisfactory because it clashed with the neutral money argument used elsewhere by the government. Certainly, in the short-term, especially when the government was trying to balance the budget as in 1921/1922 and 1922/1923, the desire to reduce the rupee cost of the sterling transfer may have played a role. But by the time the Government of India adopted 17½d. in the 1924/25 budget and 18d. in the 1925/26 budget, the immediate fiscal pressures had eased. Even on empirical grounds, let alone the theoretical, budgetary pressures could not be cited to justify a revaluation. In 1923/1924, an estimated revenue surplus of Rs. 4 million became an actual surplus of Rs. 15 million and the Indian government had to rig the budget to hide the increase![58] In 1924/25, an estimated surplus of Rs. 1.8 million became a final surplus of Rs. 40 million.[59]

Nor was the price explanation satisfactory. Indian prices do not seem to have responded significantly to exchange rate changes. More importantly, there is no evidence that the price stability factor played a consistent role in the arguments in favour of a higher rupee. The India Office used the price stability argument only intermittently and as we show below, by revaluing the rupee, the Indian monetary authorities hoped to encourage Indians to consume more commodity imports and buy less gold. The confusion within the India Office establishment over the price argument is apparent from the fact that while it was suggested that a rupee appreciation was necessary to preserve price stability in India, a recently retired member of the India

[57] See IOLR V/26/302/8, Kisch to Hilton-Young Commission, Qn. 11830, Blackett to Hilton-Young Commission, Qns. 10479–480; School of Oriental and African Studies, London (SOAS), Addis Papers, pp. Ms. 14/557, draft reply to Brunyate dated 12 November 1926, NMMA, PT Papers, Madon to Purushottamdas Thakurdas, letter dated 30 March 1926; IOLR L/F/6/1047, F. 2410, 'Note on the Present Position of Indian Exchange with Reference to Recent Telegraphic Correspondence with the Government of India', by Kisch dated 14 November 1924.

[58] IOLR L/F/6/1071, F. 5731, McWatters to Under-Secretary of State, letter dated 3 October 1924.

[59] IOLR L/F/6/1075, note by Kisch dated 9 March 1925.

Office Finance Committee justified a higher rate to the Hilton-Young Commission, because India's rates of inflation were lower than the world rates of inflation.[60]

We are now left with explanations for a rupee revaluation that either figure only marginally or are referred to tangentially in the records. There are two distinct questions that need to be considered.

The first question is, of course, the exchange rate for the rupee. Why did the India office and the Government of India seek a higher rate for the rupee than the pre-war rate? The second, and somewhat related, question is why did the two bodies defer stabilisation till the sterling had returned to gold, but not thereafter?

It is necessary to refer to our earlier discussions of the developments in the international financial system in the post-war years. In the light of the British desire to maximise gold flows to the USA (and reduce other demands for gold) a floating rupee yielded the advantage of reducing the Indian demand for the metal. Rather than soaking up reserves (in this case, gold) to keep the rupee below the gold import point in an expansionary global environment, the Indian monetary authorities could let the rupee appreciate. Certainly, had stabilisation been accomplished say, in 1923, sales of council bills could have ensured that some of the reserves accumulated to keep the rupee within the gold points would have been in the form of sterling rather than gold. But in the unstable conditions, a link to the sterling and a large role for the sterling as an intervention medium in the Indian currency system would have been hard to justify. Further, council bill sales could never have completely eliminated gold movements to finance trade, especially when the sterling float yielded flexible margins of intervention which in certain circumstances, would have made gold exports the preferred form of remittance to India. Further, an US-induced global expansion was still in prospect in 1923. If the Indian monetary authorities denied themselves the freedom of exchange-rate policy, they would lose an instrument to check or regulate the composition of Indian imports during the boom.

The extent of the British concern to prevent South African gold going to India is evident from the ban imposed on its direct shipment to India till August 1923. The ban was lifted because of protests from the South African gold producers. Large amounts of gold began to move directly from Durban to Bombay and became a source of worry for the British Treasury. There were problems of India drawing gold from New York as well. Firstly, it would result in a diversion of American gold reserves from the preferred British use for them. Further, to the extent these gold

[60] IOLR V/26/302/8, Brunyate to Hilton-Young Commission, Qn. 11471.

imports were financed in sterling, they would have weakened it in relation to the dollar.[61]

Despite Norman's apparent scepticism the relation between a higher exchange rate and the composition of Indian imports was quite clear to officials of India Office and Government of India. They told the Hilton-Young Commission that India's high gold imports owed to the high price of her imports of manufactures. Blackett conceded that four good monsoons had kept the prices of India's exports down while the prices of the cotton manufactures that India imported had remained high.[62] If the revalued rate had no role, contrary to other suggestions, in keeping Indian prices down and the latter were held down by four consecutive good monsoons, then the only role that an exchange rate appreciation could have played in regard to prices would have been through reducing the prices of India's imports. For good measure, they would also shift the Indian demand for imports away from gold.

The desire to reduce the quantities of gold flowing to India partly explains the delay in stabilising the rupee as also the decision to have a 'permanently higher rate' for the rupee than 16d. gold. The latter would only have a short-term or a medium-term effect till price adjustments were achieved, but Britain's own adjustment problems were mostly viewed as a short-term problem in this period.

There was another reason for deferring stabilisation in India till sterling returned to parity with gold. This related to the need to prevent the Empire countries from pegging their currencies to gold ahead of Britain. The British fear was that in the latter event, sterling would be left as the only 'paper currency' in a world of gold currencies to its own detriment and to the benefit of the dollar. For example, Norman told the Chamberlain-Bradbury Committee that if sterling did not return to gold at an early date, the movement towards the dollar would become unstoppable. The Far-East, South Africa and Australia had already moved away from the sterling and if the European countries also stabilised on gold, Britain would be left out of the re-established gold standard. Charles Addis told the same committee that the financing of the Far-Eastern trade was increasingly passing into American hands. Walter Leaf, a representative of the Committee of London Clearing Banks said that if Germany got the Dawes loan

[61] L.V. Chandler, *Benjamin Strong: Central Banker*, New York, 1958, pp. 322–23, cites a letter from Norman to Strong, dated 8 May 1925, which reflected this concern. The letter said India had drained 1.5 million pounds of gold since the sterling returned to the gold standard and India, '. . . almost irrespective of the exchange, is a great absorber of gold . . . .' Kisch thought the Indian gold demand was 'exceptional' because it was private, non-monetary demand. See IOLR V/26/302/8, Qn. 11036–11044.

[62] IOLR V/26/302/8, Qns. 10878, 29–33 and 434; IOLR V/26/302/7, Appendix 4, McWatter's Memorandum, p. 40.

and fixed the mark to gold (as she eventually did), the sterling would be 'squeezed out between the dollar and the mark . . . .' He warned that the US Federal Reserve 'have shown clearly their intention to take advantage of that position to get the dollar bill to supplant the sterling bill.'[63]

Hawtrey was equally outspoken on the dangers of a floating sterling in a gold standard world. In a memorandum drafted in January 1925, he said (reflecting the contemporary wisdom) that in order to restore the 'business of London as a world clearing centre, the essential condition is that a sufficient number of foreign currencies should be very nearly fixed in value in relation to the sterling.' This could not be done if the sterling was floating. Most countries desired to stabilise with respect to gold: 'Only Egypt, Danzig and some parts of the British Empire are definitely stabilised in terms of sterling without regard to gold.' As more countries went on to gold, the trend might catch on and the 'transition to a general gold standard may be a very short one, and London may be left isolated with a paper currency in a gold-using world.' All the gold standard countries would then be able to finance trade with one another without the exchange risk peculiar to bills drawn in sterling.[64]

By early 1925, South Africa was threatening the monetary unity of the Empire. The Kemmerer Mission (led by the Princeton Professor of Political Economy, E. Kemmerer) went to South Africa late in 1924 and, in common with its prescriptions to the other countries it had visited, recommended a gold peg and the establishment of financial links with New York. In January 1925, against British advice, South Africa accepted these recommendations and opted for a return to the gold standard. Australia also made similar threats. A British Treasury memorandum emphasised that if the sterling depreciated after Australia returned to gold, the Australian dollar would remain pegged to gold.[65]

British Treasury officials utilised the fear of London losing financial pre-eminence to New York, to stampede a reluctant Chancellor of the Exchequer, Winston Churchill, into supporting an early return to gold. Early in 1925, when Churchill questioned Niemeyer on US gold exports to

[63] PRO T160 197/F. 7528/02/1, Montagu Norman's evidence to the committee dated 27 June 1924. L.S. Pressnell, '1925: The Burden of the Sterling,' *EHR*, Vol. 31, No. 1, 1978, p. 77 points out that like the Australian banks, South African banks also shunned London balances as they feared losses from sterling depreciation.

[64] CCA Htry 1/23, 'Sterling and the Gold Standard', undated memorandum written in January 1925. See also CCA Htry 1/26, 'The Gold Standard', confidential memorandum by Hawtrey dated 2 February 1925.

[65] Costigliola, 'Anglo-American', *JEH*, 1977, pp. 923–26, L.S. Pressnell, '1925', *EHR*, 1978, p. 67, p. 80; W.A. Brown Jr., 'The Conflict of Opinion and Economic Interest in England', in S.S.Pollard ed., *The Gold Standard and Employment Policies between the Wars*, London, 1970, p. 46.

Australia and India, the latter used it as a peg to hang another argument in favour of an early return to the gold standard. He explained that the demand for US gold arose because of the discount on the sterling with respect to the South African pound and gold. Therefore, when India was not buying in South Africa, she bought in the USA. 'This is not a bad illustration of what happens when Dominions are at par with gold and London is not. The Dominions deal with US as a centre and don't leave their sterling in London.'[66] As Hopkins remarked while preparing his evidence for the Macmillan Committee, if London had not returned to gold in 1925, the Dominions would have done so on their own. London would then have lost touch with many markets as also her 'financial pre-eminence' both 'to the gain of the U.S'.[67]

Therefore, India's return to the gold standard ahead of herself would not have been acceptable to Britain. When Blackett talked of the rupee being tied to the chariot-wheels of the American Federal Reserve, he was merely suggesting that, apart from being unable to pursue a stabilisation policy in league with Britain, India would be pulled away from the orbit of the sterling and towards the dollar. An Indian stabilisation ahead of the sterling would have also increased pressure on London for an early return to gold. There is no evidence of official pressure from India to secure an early British return to gold. In this respect, the Indian case differs from the Australian and South African ones and reflects, perhaps, the greater freedom of policy that the latter two countries possessed. In contrast, the more pliant disposition of the India Office and the Government of India on the timing of rupee stabilisation stemmed essentially from a desire to protect the position of the sterling. The references to 'world conditions returning to normal' before attempting a rupee stabilisation were merely a way of representing the long wait for sterling's return to gold.

[66] PRO T172/1499B, Niemeyer to the Chancellor of Exchequer, 'Recent Gold Exports from USA', memorandum dated 5 February 1925.

[67] PRO T176/46, 'Gold Standard and Rationalisation', undated notes by Hopkins for the Macmillan Committee.