CHAPTER FOUR: A LOST CAUSE: THE POLITICS OF THE EXCHANGE PROBLEM.

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In the final chapter the story shifts back to the politics of the exchange agitation. It takes over from where the first chapter left off and attempts to analyse the methods by which the agitation was extended, popularised and contested. The first part of this chapter deals with Purshottam's efforts to create agitation in support of the 1s4d Rupee. The other side of the narrative was the Government's Response to the exchange agitation and how it planned to neutralise and combat its purpose. The G.O.I. was not the final authority, it relationship with the India Office was troublesome during these years and the narrative seeks to contrast this with the tactical difference portrayed in the second chapter. The narrative progresses to an exploration of the objective reasons behind the struggle and the growing perspective of agitational politics amongst the capitalist class. The second half of the chapter focuses on the Reserve Bank Bill against the larger framework of English politics at the time. The Reserve Bank was a more secular demand and of greater consequence to the Congress, though eventually the Rupee problem and a Central Bank proposal are indivisible.
Throughout the commanding figure remains Purshottamdas though towards the end control is fast slipping from his grasp. Nevertheless, if history was to throw up one name in the agitation for a balanced monetary mechanism it would be Thakurdas.
War Prosperity and the Montford Reforms

In the vast panorama of Indian politics, the business community entered in 1920 a decade that promised an alteration in its hitherto haphazard growth. It had emerged as an industrial class as a byproduct of a colonial situation which was strongly prejudiced against indigenous manufacture. So Indian industry took root where it could, almost always ignored by an administration which till the First World War was not entirely willing to attend to its requirements.

But once brought into existence, its slow but sure growth spawned a class of entrepreneurs that were thrown into a limited association with the colonial state. By the twenties the association, whether one of conflict or cooperation, was materially enlarged by two developments. The first was the solid tangible impetus that Indian industry received with the First World War and the enforced isolation of the Indian home market from competitive imports. Profits multiplied, exports soared and the diversification that was undertaken strengthened the organisation of industrial production in a number of different fields.
The capitalist class emerged from the first world war with a relatively more resilient and expanded industrial structure, which was, most important of all, capable of growth if guaranteed state protection and encouragement. The substantial gains made during the war period had to be consolidated and the huge profits once tasted could not so easily be forgotten. The war had increased the productive capacity of indigenous industry; it had also laid the objective basis for the political articulation of an industrial interest.

The second development was the limited advance towards constitutional authority (that the Montford reforms embodied in a Legislative Assembly), which gave the industrial interests the possibility of expression in a greatly enlarged arena. There is little doubt that the 1919 Act shared no executive authority whatsoever with Indian political interests; the Governor General's reserve powers made that a foregone conclusion. But what cannot be considered an advance in 'responsible' government could certainly be interpreted as an experiment in 'responsive' government. The opposition in the Legislature could demand replies to questions asked of the government, reject the budget, and if nothing else could obstruct government business at a level that was pre-eminently visible to both officials of the administration and to public opinion through the
medium of the Press. It was such powers of political 'response' that made the Legislative Assembly a viable political platform for the commercial community to whom radical methods of agitation were abhorrent and unacceptable.

The efforts at public propaganda and education that were pursued by Thakurdas over the Currency Bill and by other commercial spokesmen in their fight for reform were almost always aimed specifically at capturing a favourable vote in the Assembly. It is perhaps obvious why the capitalist class could not afford to support extra-legal, or even extra-constitutional apparatuses of agitation. Their peculiar position in regard to the government, the nature of their demands for reform, the limited but growing strength of the working class, all these allowed a very narrow set of political alternatives.

The Legislative Assembly was perhaps the only purchase from which the commercial community could defy government and hope to modify executive policy. Till the end of the inter-war period, this dimension was not exhausted and it was a prominent reason for the weakness of the commercial spokesmen's efforts to win concessions. The Currency Bill never really succeeded. The Reserve Bank issue was won, if indeed the 1935 Reserve Bank could be called a triumph, on the determination of Congress to
bargain for financial self-government. It was certainly not a victory that could be solely attributed to the capitalist class. The Assembly was little more than a public stage, a glorified debating society, but that it helped the commercial community to achieve cohesion was undeniable.

It was then the greater vigour of industrial organisation after the war and more specifically the Montford reforms of 1919 that encouraged individual spokesmen of the commercial community to organise themselves into associations in defence of their interests. The issues were numerous, viz. tariff reform, excise duties, retrenchment of government spending, petition for state subsidies, and they were approached with an attitude of 'critical cooperation'. It was this 'critical cooperation' that literally defined the political procedure adopted by the capitalist class. Though government policy had to be analysed, criticised and attacked, it was not acceptable to deny the administration the cooperation that they were often called upon to extend. Indeed, they had very little choice but to cooperate with the government unless they were willing to sacrifice the goodwill of the administration, which indeed was untenable and would have threatened their existence.
Hence Assembly politics, inspite of its limitations, was played in deadly earnest both by the Assembly parties as well as the government. Political manoeuvre in the Assembly stood in sharp contrast to a country exhausted and quiet after a nation-wide non-cooperation movement. Strategic approaches to constitutional agitation came into focus, whether it was 'critical cooperation' on part of the commercial community, or 'divide and conciliate' on part of the government the details are worth some attention.

**Political Manoeuvre**

The Currency agitation was in some ways an illustration of the use of 'critical cooperation' in pursuit of reform. Purshotamdas used the Assembly, participated on Commissions of Enquiry, yet despite his eventual failure, he organised a strong vocal agitation for currency reform. The protest was so determined that from an initial disregard of Purshotam's efforts, the Viceroy became increasingly concerned about whether the Finance Member could win a favourable vote in the Assembly. The official preparations for the currency debate were perhaps as fevered as that of the opposition, and if the exchange of letters between Irwin and Birkenhead is any indication, the devices that government used were often close to outright intrigue.
When government declared its intention to set up an expert commission on currency, what was revealing was the sheer weight of political calculation that went into determining their approach to the problem. That there had to be a substantial revision of the two shilling statutory ratio had been apparent for some years now, but at what level could the rupee be pegged? The official interest would have been served by as high a rate as possible and to guarantee that the proposed commission would safeguard this interest if not indulge it altogether, the members were picked with deliberate care.¹ The India Office rejected the government of India's suggestion that there should be an equal representation between Indian and

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1. Lord Reading to Birkenhead; January 14th 1926, Reel one, Volume one, Birkenhead Papers.
non-Indian members,\textsuperscript{1} and included Reginald Mant as the extra English officer on the board of the enquiry.\textsuperscript{2}

Purshotamdas could not be ignored and, in spite of the

1. The storm of protest that was unleashed, dominated newspapers, especially those published in and around Bombay for the better part of three weeks. In this public exchange the Bombay Chronicle stood vehemently against Purshotamdas' intention to participate in the Commission's proceedings, and the Indian Daily Mail stood with Purshotamdas advocating a more moderate reasoned approach.

Swarajya, October 7, 1925 'The Currency Commission'.
The Maharatta, October 11, 1925 'The Currency Commission for Whom'.
The Bombay Chronicle, October 12, 1925 'An Individual Lapse', also on the same day 'A Question of National Self-Respect'.
Times of India, October 12, 1925 'The Currency Commission'.
Indian Daily Mail, October 13, 1925 'Sir P. Thakurdas and the Currency Commission'.
The Bombay Chronicle, October 14, 1925 'Notes of the Day'.
Indian Daily Mail, October 14, 1925 'The Move to Boycott Currency Commission'.
Indian Daily Mail, October 15, 1925 'The Currency Commission'.
Voice of India, October 17, 1925 'Wavering Requisitionists'.
The Bombay Chronicle, October 20, 1925 'Short Memorists'.
Voice of India, October 24, 1925 'The Currency Commission'.
The Bombay Chronicle, October 24, 1925 'A Misconstituted Body'.
The Maharatta, November 1, 1925 'The Currency Commission'.
Advocate of India, November 4, 1925 'The Currency Commission'.
The Bombay Chronicle, November 5, 1925 'Bombay's Protest'.
The Bombay Chronicle, November 5, 1925 'Clique or Country'.
Voice of India, November 7, 1925 'Personalities at the Gaiety'.
Advocate of India, November 8, 1925 'The Chamber meeting'.
Indian Daily Mail, November 11, 1925 'What India Thinks'.

2. Lord Reading to Birkenhead; August 27, 1925, Reel one, Volume one, Birkenhead Papers.
fact that he had been nominated to the Commission, the Viceroy was not at all sure whether the composition of the Commission would not come under attack in the Assembly. With an English Chairman and a majority of English officers there was not only an outcry from within the Assembly, there was also a vocal demand from some quarters in the Press that Purshotam should resign from the packed Commission and foreswear any association with the currency enquiry. These were anxious moments for the Secretary of

1. Irwin to Birkenhead; January 14, 1926, Reel one, Volume four, Birkenhead Papers.
2. The Bombay Chronicle; August 30, 1925; 'Purshotamdas asked to resign'. The plea was on behalf of Laxmidas Rowjee Tairsee, addressed to the I.M.C. for consideration at a special meeting of the Chamber on August 28, 1925. The petition said, "The Chamber requests Purshotamdas Thakurdas to tender his resignation from such a packed Commission whose report is a foregone conclusion and resolves to take no notice, whatsoever, of the said Commission." Pheroze Sethna to Bejonji Madon; August 29, 1925; p.317; P.T.Mss 55/l. Sethna strongly objected to I.M.C.'s approving of Tairsee's request to Purshotamdas Thakurdas to tender his resignation. This was the first time that infighting within the Merchant Chamber surfaced so prominently. See Lalji Naranji to Purshotamdas, September 5, 1925, p.211, P.T.Mss 55/l. "I am writing this letter particularly to assure you all the agitation in the name of the public by the Chronicle is made by Shah, Tairsee and the hidden hand of Manu Subedar."

Lalji felt that the rest of the Chamber was behind Purshotamdas; see also, in the columns of 'Hindustan and Advocate of India', a favourable Report which was a result of a letter from Purshotamdas to Indulal Yagnik; September 5, 1925.
State and the Viceroy; had Purshotamdas resigned from the Commission, the Government would certainly have been hard put to find a replacement of the same stature as Purshotam. As it happened Purshotam welcomed the opportunity to work with the Commission and quite firmly rejected the demand for his resignation, arguing that if nothing else he stood to record his dissent from what was bound to be the majority finding.

The Viceroy was noticeably relieved and reported to the Secretary of State that Purshotam's acceptance of his nomination and the visible functional harmony between him and Hilton-Young, for the time being, had quenched attacks against the Commission.

Birkenhead's gamble had worked. The Commission with an English Chairman, a majority of English members and pliable Indian nominees survived with only one member who represented the 'native' demand for a lower ratio. Purshotamdas was probably aware of this, but his willingness to cooperate with government was because he felt, as others did, that genuine reform could be won that way.¹

¹ Purshotamdas to Sir Sivawamy Aiyer; December 4, 1923, p.569, P.T.Mss 40, Part I.
This was not far from the general feeling in the country. The Swaraj Party in the Second Assembly elected under the Reform Act had initiated a debate on the Constitution where Pandit Motilal Nehru had argued strongly for more constitutional responsibility and had actually led a vote against the government that was carried by 76 votes to 48.¹ The whole course of the debate and its conclusion presented a vivid picture of a central parliament which guaranteed the liberty of expression, but had no power to enforce its authority on the more important aspects of government. The Assembly did not possess full parliamentary powers, but to the Indian government it was the farthest point that they were constitutionally willing to go, and however reluctantly they were forced to consider Assembly deliberations and not dismiss them entirely. It was important to the Government of India that the Assembly approach at least the semblance of a working Legislature, as it was equally important that its most 'reasonable spokesmen' be brought into close cooperation with government. The dilemma was quite real; was the government to consult the opposition within the Assembly, or could it afford to discard its criticism and reject the suggestions of its spokesmen?

¹. The Times, (London); February 20, 1924, 'India in Transition'.

What in reality the government endeavoured to do was to combine both to the best of its advantage. With a master tactician like Irwin at the helm of affairs, no opportunity of outmanoeuvring the Legislative opposition was spared. He delayed bills, shortened the time allowed for debate, pitted the Muslim against the Hindu, and in numerous different ways divided the Assembly and turned it against itself. This intense effort at breaking any unanimity against government comes as no surprise, but what is astonishing is that it was articulated as a political strategy to its last tactical detail.

The commercial community, on the other hand, accepted the Legislative Assembly as the only chamber of appeal in their fight for commercial and industrial concessions. However vocally they complained of the government's slow 'tortuous' attitude to reform, there was no other way of influencing government policy, unless they turned to the methods of Gandhi and the Congress which were repellent to most of them.

Even Birla and Calcutta commercial community who were far closer to Congress than their Bombay counterparts were wary of being too closely associated with Gandhi. Their real fear was that if denied even a hesitant and critical cooperation with government they stood to lose
a cordial relationship that for a number of reasons was unthinkable.\textsuperscript{1} Purshotamdas was forced to approach Assembly politics with the conviction that it could be made to operate in promoting Indian industrial demands and winning reform.\textsuperscript{2}

Hence the Legislative Assembly was, in spite of itself, a public arena in which both the government and the commercial community had to operate subject to debate and civic censure. This was one of the reasons why

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\item[1.] When certain interests in Bombay in the I.M.C., requested Purshotamdas to resign from the Hilton-Young Currency Commission, Purshotamdas wrote to Indulal Yagnik, the Editor of 'Advocate of India' to say that since Indians lacked unity and since the Commission would forward its recommendations with or without himself, his participation would have at least some effect on the report. He clearly believed that he must cooperate with government to win reforms. He said:

"My sole point is that when non-cooperation has been given up in the political field practically with the admission of all its protagonists that it was not suitable to the present conditions of India, is it even sensible to expect the Indian Merchants Chamber to boycott the Commission?"


\item[2.] Rai Bahadur Harbildas Sarda, M.L.A., to Purshotamdas Thakurdas, March 8, 1927, p.169, P.T.Mss 55/II.

Once the Currency Bill had been lost in the Assembly a disgruntled M.L.A. wrote to Purshotamdas saying that the bogus character of the Assembly was now clear for the whole world to see. Purshotamdas could not afford to whole-heartedly agree, he wrote back to say that it was the communal tactics of the Finance Member that was responsible.
Purshotamdas felt that a part of the Legislative function was educative, aside from its more apparent and effective use as an instrument of propaganda.

In 1925, Purshotam's conviction that he could force the currency issue to a successful challenge of Government currency policy, made him unleash a wide ranging campaign for monetary reform. Purshotamdas acted with enormous energy in building up a disciplined outcry against the over-valued rupee; and though he acted in association with Chanshamdas Birla and Victor Sassoon among others his petitions for support, pamphlets, speeches and voluminous

1. The Indian Currency Leagues' intensive campaign through pamphlets and the attention the League members attracted by addressing themselves to the public through newspapers was considerable. The following newspapers, between the publication of the currency Report i.e., August 4, 1926 and the failure of the Rs4d rupee in the Assembly i.e., March 9, 1927, will indicate how alive the entire issue was and how actively patronised by the Press. See

The Bombay Chronicle, (Bombay)
Bombay Times and Journal of Commerce, (Bombay)
Hindustan Times, (Delhi).
Leader, (Allahabad)
The Maharatta, (Poona)
People, (Lahore)
Statesman, (Calcutta)
Times of India, (Bombay)
Hamdard, (Delhi)
correspondence were instrumental in keeping the agitation on its feet.¹

Purshotamdas handled the campaign with a political sensitivity that was skillful. Currency was a complex technical question and in his initial efforts to attract attention to the issue he coupled it to more sensational political appeals. In late 1924, a circular requisition was distributed among members of the Independent Party that instructed Legislative constituents to support a motion by Jinnah on a government of India Ordinance issued in Bengal.²

The circular requisition also explained the currency problem briefly and followed this with a frank appeal for support on the 1s6d rupee. Thus Purshotamdas tried to

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1. Motilal Nehru, among others, complained that they were ignorant about the currency issue and almost all requested that Thakurdas explain his exchange bills with the clarity and simplicity that would enable them to understand the problem.

See, Motilal to Purshotamdas, p.355, December 3, 1924, P.T.Mss 40, Part II.

See also, Sirish Chandra Dutta, M.L.A., to Purshotamdas, June 19, 1927, p.153, P.T.Mss 40/III.

2. Title: Circular Requisition to members of the Independent Party; Resolution to be moved by Jinnah:

"This Assembly recommends to the Governor-General in Council to withdraw or suspend the operation of the Ordinance of 1925 promulgated in Bengal immediately."

p.325, P.T.Mss 40, Part II, December 14, 1924.
harness to his own cause, the inevitable outcry that would break out when Jinnah's move was tabled. Much of the earlier debate on the composition of the Currency Committee, for instance, was promoted on a similar appeal for nationalist sympathy. The Currency Committee it was demanded should have a majority of Indian members with an Indian Chairman; anyone who called himself a nationalist could not afford to quarrel with that.

Purshotam's efforts outside the Assembly were a good deal more spectacular. To organise a show of strength Thakurdas formed a Currency League that had branches in Gujarat, Maharashtra and supporters were found in sufficient numbers even in Nagpur to form a Committee that would

1. Circular Requisition to members of the Independent Party; Resolution to be moved by Jinnah:

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p.325, P.T.Mss 40, Part II, December 24, 1924.

2. The constitution of the Indian Currency League made it quite clear that:

a) Branches of the League may be formed at any important centre in the various provinces in India, and the duty of each such branch will be to carry on a continuous propaganda in its respective province;

b) Propaganda shall be carried on by means of pamphlets, leaflets, newspapers, articles, both in English and in different languages of each province, also by means of lectures and discussions.

The Indian Currency League: Pamphlet No.7 published by the League at Kitab Mahal 192, Hornby Road, Bombay.
petition for the 16d ratio.\textsuperscript{1} In Poona, the Maharashtra Committee operated under the tutelage of D.C. Karve who was assisted substantially in his efforts by the Fergussen College Department of Economics.\textsuperscript{2} In Ahmedabad the Currency League was patronised by Millowners among whom were influential figures like Ambalal Sarabhai, G.V. Mavlanker, Vallabhai Patel, that added considerably to the League's prestige and the support it could command.\textsuperscript{3}

\begin{enumerate}
\item Purshotamdas to M.S. Aney, January 13, 1927, pp.363-65, P.T.Mss 55, Part II.

The agitation was primarily aimed at the Legislative Assembly vote, nothing more and nothing else. 

"I feel that the time for agitation in the country or in the districts is now past. It is a question of giving the correct verdict in the Assembly."

\item There was even a response from Banaras, where one would have thought that currency matters would have been very far from the minds of the inhabitants of this spiritual city.

Pandit Kishori Ram to Purshotam, p.355, P.T.Mss 55, Part II.

\item Currency League: Gujarat Branch, Ahmedabad, January 20, 1927, p.331, P.T.Mss 55/II.

Secretary, Homi Mehta, See routine letter from H. Mehta to Purshotamdas about matters concerning the League. Its other members were: President, Mangaldas Parekh; Vice-President, Vallabhai Patel and Ambalal Sarabhai; Hon. Secretary, G.V. Mavlanker.

February 26, 1927, one month later Shantilal Mangaldas had obtained 4,000 signatures from Gujarat in a petition that condemned the intention of government to fix the ratio at 1s6d.
\end{enumerate}
In Calcutta, D.P. Khaitan of the Bengal National Chamber exchanged long and involved technical correspondence as to how best to present the currency case in the Assembly. Khaitan concluded that it was best to claim that since prices were beginning to match the pre-war prices for essential and export commodities, the ratio

1. This was about the same time that G.D. Birla was elected to the Legislative Assembly.

Devi Prasad Khaitan to Purshotamdas; February 4, 1927, p.317, P.T. Ms 55/II.

The strategy of the Indian Currency League was to expose the agitation for a lower rupee to an extensive coverage by the press by various spokesmen whose pronouncements carried public weight. D.P. Khaitan in Calcutta was matched by Sir Victor Sassoon, F.E. Dinshaw, Jamnadas Dwarkadas, B.F. Madan, H.P. Mody and a whole galaxy of commercial and industrial notables who could effectively bombard a public audience with a mixture of technical as well as social benefits of the lower rupee. The Hindustan Times reported that -

"The formation of the Indian Currency League.... with the avowed object of putting up a stern and systematic fight against the proposal to force 18d exchange on this country, is an event of far reaching importance. The battle of ratios will now assume a stern and more intense form. The formation of the League shows that Bombay does not mean to take things lying low and that she is determined to adopt all constitutional means to ensure the adoption of 16d ratio which, in her opinion, is the only beneficial ratio for the country."

See Hindustan Times, October 9, 1926, p.1; October 21, 1926, p.10; October 22, 1926, p.10; October 23, 1926, p.10; October 30, 1926, p.3; October 31, 1926, p.2.
could only in all economic fairness to the consumer be adjusted to the 16d rupee; the rate that had been prevailing ever since the Fowler Committee had recommended 1s4d in 1898. It was this rate, D.P. Khaitan argued, that was in adjustment with prices in gold standard countries of the world.¹

The agreement and the mutual consultation between Devi Prasad Khaitan and Purshotam led the Bengal National Chamber to join in the general effort to support the 16d rupee.² Khaitan spent considerable amounts of time and

1. In a rather complicated argument in which he multiplies the index number of prices (base year 1913-14) by 15 to get the rupee equivalent i.e., Rs.1500 for 1913-14 (100 x 15) and Rs.2190 for 1925 (146 x 15), then converts Rs. to its £ equivalent compares it to the index number of prices prevailing in U.S.A. and Great Britain. The method is incorrect if only because Khaitan should have multiplied 146 x 13-1/3 and not by 15.

See D.P. Khaitan to Purshotamdas, November 27, 1926, pp.485-93, P.T.Mss 55/II.

Confusion lies in what should be considered whether real value in gold or exchange value in sterling.

See D.P. Khaitan to Purshotamdas, December 4, 1926, pp.479-85, P.T.Mss 55/II.

2. The Currency League, if it was to command the attention of the public, had to reach as far geographically as was possible to reach a national consensus favourable to the lower rupee. Spokesmen of the League were reported in newspapers from Lucknow, Lahore, Madras, Banaras, Cawnpore, Ahmedabad and even in the British Parliament where the issue was raised by Graham Pole, a Labour M.P.

See Hindustan Times, November 4, 1926, p.10; November 16, 1926, p.9; November 25, 1926, p.4; December 5, 1926, p.1; December 8, 1926, p.10; December 21, 1926, p.

trouble to organise the Indian Industrial Fair in the winter of 1926 in which a Conference was held chaired by the eminent Swarajist, Sarojini Naidu.\footnote{1} The Seminar on the subject of 'Bengal's loss through currency manipulation' attracted the attention of the Calcutta commercial community and notables such as B. F. Madon expressed their support for the agitation.\footnote{2}

These specific attempts to induce reform were complimented by the more general effort to bring into being a Federation of Indian Chambers of Commerce.\footnote{3} The

\begin{itemize}
\item[1.] November 27, 1926, D. P. Khaitan, P.T. Mss 55.
  \begin{itemize}
  \item[a)] Indian Congress, December 31, 1926; January 2, 1927.
  \item[b)] January 3, 1927, Bengal's loss through currency manipulation.
  \end{itemize}
\item[2.] Report of the proceedings of the Annual General Meeting of the Bengal National Chamber of Commerce for the year 1925.
\item[3.] Apart from the larger and more known Chambers of Commerce, a number of trade and industrial associations came into being. Among them were the Indian Sugar Mills Association (1932), Association of General Insurers (1933), Indian Chemical Manufacturers Association (1938), Indian Paper Mills Association (1939), Indian National Steamship Owners Association (1930), All India Machinery Merchants Association (1955), Deccan Merchants Association (1914) and the Indian Motion Picture Producers Association (1928). The Indian Chamber of Commerce, Calcutta encouraged the establishment of many local associations like the India Produce Association, Calcutta Rice Merchants Association, Calcutta Exchange and Bullion Brokers Association, East India Jute Association, Indian Steel Agents Association and provided them secretarial services of the Chamber.
\end{itemize}
proposition was discussed as early as in 1923 but did not immediately become a reality because of the little interest that Indian Chambers displayed in a federation of the sort that G.D. Birla envisioned. As issues of commercial importance crept up, the contrast between the influence of a well-knit body like that of ASSOCHAM, and the pathetic disorganisation of the Indian chambers, worried Birla enough for him to write to Purshotam saying

"You will perhaps agree with me that if we do not check their (ASSOCHAM) activities in time, their influence with the Government will increase to an extent, which Government will find difficult to resist."

Thakurdas agreed and as a direct result of the efforts of these two architects the Federation finally crystallized as a formal organisation in 1927.

1. G.D. Birla to Purshotamdas Thakurdas; December 7, 1923, P.T. Mss 42/III.
2. Ibid., p.375.
3. Ibid., p.376.
4. Purshotamdas to G.D. Birla; December 11, 1923, p.369, P.T. Mss 42, Part III.
   Purshotamdas to Debi Prasad Khaitan; September 9, 1927, p.351, P.T. Mss 42/III.
   "The period of acrobatic feats in the public as far as public questions are concerned is gone. The only thing which will now succeed is unity and constructive work."

With the formation of the ASSOCHAM in 1920 and the simultaneous granting of some measure of fiscal autonomy to India the need for a central organisation representing Indian business became more pressing. It was abundantly clear from the annual records of some of the Chambers of Commerce organised by Indian businessmen that bodies such as the Indian Merchants Chamber in Bombay and the Bengal National Chamber in Calcutta had for a long time been

.../contd.
The Currency Agitation: The Response

The extent of Thakurdas's efforts, his ambition to construct a powerful front within and without the Assembly, the support that he drummed up in Ahmedabad, Calcutta and Bombay, all of these were the more obvious symptoms of his design to impress upon the Viceroy how universal the demand for the lower rupee actually was. The greater the exposure the agitation received the more attention that it would command; the first step was clearly to make the technical problem of currency an issue of public controversy, only then could it be a contest. In this Purshotam succeeded pre-eminently.

Judging by the correspondence that was addressed to Purshotam in his favour, the agitation seemed to be attracting at least attention if not definite support. The Parsi Sabha expressed their agreement with Thakurdas through

associated with the Indian National Congress and the Swadeshi Movement. Sobode and Namjoshi wrote that

"... very close association with the Indian National Congress had its own disadvantages for business. However, it was not possible to oppose British business without nationalist support. At the same time it was not possible to carry on many routine functions of business without government support. It was therefore essential for Indian business to have a central body relatively sheltered from politics but yet fully representing the nationalist spirit."

Sobode and Namjoshi 'Chambers of Commerce and Trade Association in India', p.207.
Barjorji Framji Bomacha Stanley Reed, the General Manager of Bombay Tramways, wrote warmly of Purshotam's efforts in favour of the interest of his country. The Native Share and Stock Brokers Association passed a resolution unanimously carrying the 16d rupee and the 'Hindustan Times' was in specific agreement and reported favourably on Thakur's Legislative Bill, all of which went to show that the 16d rupee

1. Sir Stanley Reed agreed with Purshotamdas in that the 1s6d ratio would represent a breach with the permanent ratio and the disturbance of the long established legal standard. But what he considered best for India's industrial and agricultural interests was that the rupee must be governed by an institution which is free of government and all other political influence. He agreed with the Royal Commission that a Gold Bullion Standard was better than a Gold Currency Standard and that one of its chief advantages was that it removed the rupee from a strict dependence on the silver market. Thus Stanley Reed's support of Purshotamdas and the Indian Currency League was conditional. More important his agreement about the 1s4d rupee was only lukewarm. The League's efforts to promote an appreciation of 1s4d ratio as the natural ratio were not successful.

See Hindustan Times, November 18, 1926, p.5 and November 19, 1926, p.5.

2. Stanley Reed to Purshotamdas; Bombay Electric Supply and Tramways Company, February 16, 1925, p.97, P.T. Mss 44; March 10, 1925, p.95, P.T. Mss 44.

Stanley Reed to Purshotamdas; September 16, 1925, p.153, P.T. Mss 55/I; November 14, 1926, p.461, P.T. Mss 55/II.

Barjorji Framji Bomacha to Purshotamdas; December 8, 1926, Parsi Rajikiya Sabha, p.4 l, P.T. Mss 55/II.
was a substantial issue. However, though not all the support for the 16d rupee was unequivocally behind Purshotam's agitation, the sheer volume of correspondence indicates the huge effort that could only really be termed as a personal crusade which achieved remarkable success.

1. A question from certain commercial representatives from Amritsar who asked what the effects of the proposed ratio would be on the working class the secretarial staff on fixed salaries, whether 1s4d would not be detrimental to their interest. Girdharilal to Purshotamdas, December 8, 1926, p.415, P.T.Mss 55/II.

2. Rajendra Somnarayen, Chairman, Native Stock and Share Brokers Association, Bombay; February 17, 1927, p.255, P.T.Mss 55/II.

K.R.S. Shroff (President of NSSBA) however did not agree with Purshotamdas arguing instead for stability of exchange. February 25, 1927, p.203, P.T.Mss 55/II.

3. Because of Purshotam's personal popularity and his public integrity as an honest spokesman for India's commercial and industrial progress, he was elected unopposed to the Legislative Assembly. Admittedly his constituency, narrow as it was, no indication of his standing anywhere other than in Bombay, but it is undeniable that his recognition where it did exist rested on the influence he wielded over the Currency Agitation. There is no doubt that he was a central figure in the fight for Currency Reform. See Hindustan Times, August 24, 1926, p.10; August 24, 1926, p.8; August 25, 1926, p.2; October 7, 1926, p.5; October 11, 1926, p.1.

"I must have read hundreds of cuttings and saw that you were the central figure in the Currency fight...."
In the South, Purshotamdas approached the Nationalist Party through Rangaswami, the Editor of the 'Swadeshimitram', who was also the Secretary of the Party. One of his strongest supporters from the ranks of the Nationalist Party was B.V. Raju, who replied quite frankly that though he did not understand the technical matters related to currency he fully backed Purshotam's appreciation of the problem.  

Purshotamdas had already been thinking in terms of finding a likeminded group of legislators in the Assembly to form a front that would challenge government on the currency issue. Purshotam wrote to Ibrahim Rahimatulla on not only the currency question but on the cotton excise duty as well, touching upon the need to oppose the government in the Assembly and block the Currency Bill.  

1. B.V. Raju to Purshotam; P.T.Mss 40/II, 40/III, in which a number of letters are exchanged on currency matters; January 2, 1925, P.T.Mss 40/II.

He pointed to the crafty plan of government to recruit the Muslims to support the 18d ratio and advised Purshotamdas to counter the government campaign with a reasoned request of his own. This unfortunately did not eventually bear fruit. The defeat of the Currency Bill was because 19 Mohammedans voted with government on the issue. Purshotam later complained to Fazalbhoy Currimbhoy that the Bill was decided on anything but the merits of the case.

March 11, 1927, p.149, P.T.Mss 55/II.

2. Ibrahim Rahimatulla to Purshotamdas; July 17, 1924, P.T.Mss 40.
Purshotam's ability to harangue and petition leading figures to fight for the 16d rupee was nothing short of amazing. In looking for an effective Chairman to head the Currency League, Purshotam did not want a spokesman who was too closely associated with the commercial community as he knew that little value was attached to a business Mughal advancing his own narrow interest as the general good of the country. Purshotam's choice of Srinivas Sastri had little to do with Sastri knowledge of the currency problem. In fact, Sastri himself wrote to

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1. In a speech at a Garden Party in Bombay on the November 10, 1926, he said

"The acceptance by the Rt. Hon'ble Srinivas Sastri of the Presidentship of the League is a proof of the spirit in which the League is conducting its operations. That the successor of Gopal Krishna Gokhale who was first to challenge in the Imperial Legislative Council the financial and currency policy of the government of India, quarter of a century back, should have agreed to identify himself with the movement to keep a close watch of the government's financial policy, is no small tribute to the all-India importance of the problems before the Currency League."

At the same Garden Party Purshotamdas himself was eulogised for the part he played in the Commission on Indian Currency. The 'Hindustan Times' reported that Lalji Narauji among other influential men in Bombay

"... eulogised the services of Sir Purshotamdas and his courage in fighting single-handed for the interests of the country."

Nevertheless the appeal of the Indian Currency League could not be spoken for by a man so prominent in the commercial world alone. Srinivas Sastri added the substance of a nationalist for a just cause.

See Hindustan Times, November 12, 1926, p.10.
Purshotam confessing his inability to deal with such matters.¹ Sastri was an eminent political figure in the South, whose prestige Thakurdas knew, could add to the appeal of the Currency League. Purshotamdas was anxious to have him and rather in the manner of a call to arms, Purshotamdas reminded him that as Gokhale's successor it was incumbent upon him to give a lead in Currency matters.² Thakurdas pointed out to government manipulation of currency and believed that only a strong and influential agitation could prevail upon the government position.³ Sastri was not moved by this appeal and it took three telegrams and a good deal of persuasion before Sastri agreed in exasperation. It was this persistent campaign to forge and organise public opinion in a move against government that is to an extent remarkable.⁴ What

1. Telegram to Purshotamdas from Srinivas Sastri; p.97, October 15, 1926.
   "Currency League Presidentship is honour
   I cannot support by my ignorance."

2. Telegram to Purshotamdas from Srinivas Sastri; October 22, 1926, P.T.Mss 60.


4. A Report typical of the discussions that took place in-camera, suggested strongly that the political strategy of the Indian Currency League was a subject of serious deliberation by the Bombay commercial community. The Hindustan Times reported

"Sir Victor Sasoon met members of the Committee of the Indian Merchants Chamber this afternoon.... It is understood that discussions were held as to how best to educate various sections of the commercial community, as to how their loss owing to higher exchange and the line of action to be adopted when the matter comes up before the Central Legislature."

Hindustan Times, December 24, 1926, p.10.
is more surprising is that Purshotam's crusade was built on his public reputation as an expert on currency, and though the Bills failed to carry the Assembly, the attention that the entire campaign attracted was in itself substantial.

By far the most valuable exchange of ideas was with Motilal Nehru whose initial interested response grew into a warm friendship and Motilal gladly propagated the currency issue with those he had contact within Bombay.\(^1\) Dinshaw Petit, a wealthy Parsi industrialist was roped into supporting the cotton excise struggle and extended his backing to the currency question on which Purshotamdas was so adamant.\(^2\)

1. However to the end, Motilal always gave only his qualified support to the currency issue. He felt that the ratio question was only a marginal debate and though he promised Purshotam his support he admitted that he was not entirely convinced that the 1s4d was the correct one for the country.

See B. F. Madon to Purshotamdas, February 7, 1927, p.35, P.T.Mss 52, in which he wrote worriedly that

"I have seen in today's paper that Pandit Motilal has persisted in his attitude in spite of the opinions of the other leaders of the Congress Party in favour of the 16d rupee. This is sad commentary on the cannons of conduct among our public men that questions like these cannot be judged on their merits."

See also, Irwin to Birkenhead, February 24, 1927, Reel one/Volume four. The Viceroy was aware of Motilal's sympathy with the 1s6d.

2. Purshotamdas to Motilal Nehru; correspondence spanning a period of 4 years in P.T.Mss 40/II, 40/III, 40/IVIII; Letters to Dinshaw Petit from Motilal were also in order to seek financial assistance for the legislative elections; October 18, 1924, p.43, P.T.Mss 40/II.

See also, Purshotamdas to B. F. Madon, February 2, 1927, in which he records that both Dinshaw Petit and Victor Sassoon are all for pushing forward the Currency League work, p.43, P.T.Mss 52.
It was through such personal appeals that Purshotam not only broached the Bill but actively recruited support on an issue that most Indian political spokesmen did not understand. In the public mind, currency was no longer a mysterious technical question it had become an issue of public debate promoted by the Press.

1. Blackett to Purshotamdas, August 11, 1924, p.475, P.T.Mss 47:

"The trouble is that there are not a great many people who are really competent to discuss such difficult subjects as exchange and currency and this is unfortunately particularly true of the Assembly."

A notable exception outside those directly involved with the currency issue was the Maharaja of Bikaner who produced a most scholarly work on the 'rupee ratio'. See also, the Rupee Ratio; H.H. Bikaner, pp.354-82, P.T.Mss 47.

2. When the 1s6d rupee was carried into the public debate there occurred a cleavage between British Chambers of Commerce dominated by English businessmen in India, and the Indian Chambers of Commerce. The alignment is interesting because it did show that the currency debate had become not just a contest for currency reform, it had also become a national issue tied up with the larger question of financial swaraj and monetary independence from Sterling. In Madras the Southern India Chamber of Commerce condemned the 1s8d ratio and the European Chamber i.e., the Madras Chamber of Commerce supported Basil Blackett. This division was reminiscent of the differences in opinion between the European and Indian Chambers in both Bombay and Calcutta.

See Hindustan Times, December 23, 1926, p.9, also the official position elaborately explained, December 7, 1926, p.2; December 8, 1926, p.1; February 1, 1927, p.6.
What indeed Purshotam had been able to do was to have located the currency issue as a public debate. His correspondence with leading political spokesmen, the formation of the Currency League and his efforts in the Assembly publicised the demand for currency reform. This was no small achievement. In identifying the question of currency with other national demands, he was able to utilise much of the resentment against the government that had been nourished by issues of greater political gravity. But this was as far as Thakurdas ever got.

Purshotamdas achieved for the currency agitation a certain notoriety, but he failed to capitalise on the attention that he had attracted and was unable to mould it into active support for his legislative endeavour. In defending the ls4d on its technical merits Purshotam was drawn into an endless debate that once began could not easily be resolved.

1. Irwin to Birkenhead; December 8, 1926, Reel one, Halifax Papers:

"Purshotamdas Thakurdas and Victor Sassoon have started an active currency league in Bombay, which they are trying to spread throughout the country. People do not seem to think that Purshotam and his friends are cutting much ice, but it remains to be seen what effect they produce on the minds of the members of the Assembly."
Given the state of statistical information about the consequences of an inflated exchange on various areas of the economy it was difficult if not impossible to decide exactly what effect the 12.5 per cent difference had on the income of the agriculturist. Nor can the difference of 12.5 per cent be accurately assessed to conclude that foreign imports into India were encouraged by an exchange bounty. This indeed may have been a positive disadvantage after the stock market crash of 1929, when the Japanese yen depreciated so fast as to make treaties obsolete many of which were only six to eight months from the negotiating table. Before 1929, however, the exact influence of the 18d rupee was unclear; as Motilal Nehru in a Legislative Assembly debate on the Currency Bill in April-March 1927, remarked there was no such thing as a 'Natural Rate'.

1. The ambiguity of the entire issue cost the Ratios debate a vote for the 18d rupee in the Assembly. It was not clear among the Congress Working Committee on the Swarajists which way each individual member would vote specially since there was no party whip used to defeat the government's recommendation on the rupee. The Hindustan Times reported that

"It is understood that Mrs. Naidu and Mr. Srinivas Iyengar supported Sir Purshotandas while Pandit Motilal Nehru warned against causing a breach in the party by making economic questions as party issues. Mr. Doraiswami Iyengar is reported to have suggested a hearing of Sir Basil Blackett as well."

Hindustan Times, February 8, 1927, pp.3-9.

2. Legislative Assembly Debates, March 21, 1927 to April 7, 1927, p.2502, Vol.IX.
Despite the fuzzy technical issues, there was little doubt that the currency agitation had become if nothing else a very visible debate. This was no small achievement. Before the agitation could become a straight contest as a national demand against an Imperial priority, the currency question had to achieve the status of a publically acclaimed proposal.

_It was in formulating the ls4d demand that_ Purshotam succeeded admirably. At a time when the currency question in terms of sheer political appeal was not on par with tariff, the success of the currency agitation was all the more remarkable.

**The Official Response**

The official response to Thakurdas' agitation was initially one of confusion. Birkenhead and Irwin were unable to agree as to how the agitation was to be contained. Birkenhead was not interested in the method but in results and the quicker this irritation was removed the more satisfactorily monetary policy would operate. Irwin was anxious to conciliate the agitation, defuse it gently with political skill, leaving the Indians fighting among themselves. The last thing he wanted to do was to foster an explosive sense of outrage that could cost the government valuable goodwill.
The lack of agreement between the Secretary of State and the Viceroy did reveal differences over a tactical approach to the problem. The Secretary of State in England was often not aware of the political pressures that the actual execution of declared policy attracted here in India. The Viceroy and the Finance Member had to perform multiple balancing acts which often failed and were harshly interpreted by the Secretary of State, as a lack of cooperation and an unwillingness to follow instructions.

India office failed to understand that repeated contraction had caused a severe problem of money stringency. Money stringency specially in Bombay, was a result of the severe deflationary measures used to


"Finance Member proposes to introduce another Paper Currency Amendment Act so as to increase the fiduciary issue from 85 to 100 crores... we must throw out the Bill unless you are of the opinion that monetary tightness thereby involved might be prejudicial to Indian interests."

Purshotamdas replies:

"If we reject the Bill monetary stringency might do lasting harm to India."

See also, Merwanjee and Sons; Stock, Bullion and Exchange Brokers, January 23, 1925 Circular.

"The Hon'ble Finance Member has introduced his Bill to amend the Paper Currency Act, raising the fiduciary issue from 85 to 100 crores. The Bill serves a useful purpose in providing more currency against sterling, but does not go to the root of present currency troubles."
support 1s6d rupee, which disturbed the normal availability of capital and was the most important motive behind the Bombay Millowners' disavowal of the 1s6d rupee.¹

Birkenhead at the India Office could not appreciate that the harvest of obstruction and resentment that the Viceroy faced in the Assembly was a consequence of monetary manipulation that the Controller of Currency undertook under his instructions. Birkenhead remained unshakeably confident that the policy of stabilising the rupee was the right one.

"All my advisors are unanimous on the 1s6d rupee and do not feel nervous about the problem of keeping it at that figure."²

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¹ As far as the Mill Industry was concerned the position was very serious. The Hindustan Times reported that mill-made cloth was practically unsaleable.

"The present situation of the cotton mill industry appears to be very critical. Some of the big cotton mills in the city have been for some time past finding it very difficult to dispose of their big stocks.... In these circumstances it is not surprising that a large number of mills are in favour of entirely stopping work until present stocks are reduced."

A number of commercial and industrial spokesmen in Bombay claimed that this was because of the sheer scarcity of liquid cash, directly attributable to contraction to maintain a high exchange.

Hindustan Times, October 17, 1926, p.2; October 24, 1926, p.11; October 25, 1926, p.11; October 28, 1926, p.1; November 1, 1926, p.9.

² Secretary of State to Viceroy, Vol.1/3, January 27, 1927, p.4, Reel one, Halifax Papers.
Birkenhead considered the maintenance of the 18d rupee to be a simple and straightforward financial problem: the Viceroy and the Member of Finance knew far better than to be bullied into agreeing with Birkenhead. Differences could grow so strong between the Finance Department and Birkenhead, that the Secretary of State was forced to remind Halifax that his instructions to the Finance Department must not be considered as advice rendered, but as commands issued and that there was to be no contravention of orders telegraphed by the Secretary of State in Council. In what he described as peremptory language, the Secretary of State remarked:

"... but frankly that particular department of your government (Finance Department) is at times apt to take the bit between its teeth in a way that makes harmonious cooperation between the government of India and the Secretary of State in their official capacity very difficult, and I thought it wise to call attention very clearly to the constitutional position."

These differences revealed an all important consideration of political tactics that is often not appreciated. The Viceroy's management of political

1. From Birkenhead to Halifax, October 21, 1926, p.114, Reel one Part II, Correspondence between Secretary of State and Viceroy, Halifax Papers.

See also, Halifax to Birkenhead, October 25, 1926, p.127, Reel one, Halifax Papers. Irwin is forced to concede India Office' seniority in the matter.

"Meanwhile I am very sorry if the (Finance) Department has behaved improperly and am, of course, willing to take responsibility for it."
opposition to executive policy was constrained by the fact that he could not afford to give the impression that he acted without the slightest reference to public opinion expressed in the Legislative Assembly, in newspapers, by Chambers of Commerce and by political parties themselves.¹ Had he done so he would have driven moderate opinion such as the swarajists in the Assembly, the Indian industrialists organised in Chambers of Commerce and eventually the Congress itself into the ranks of radical opinion; and the result of such a coalition might just have been impossible to control.

¹ To illustrate Irwin disingenuousness one may cite an exchange between Viceroy and Secretary of State, over the Currency Bill. In a letter to Birkenhead, Irwin explained that he had publicly congratulated Blackett and hosted a banquet in his honour to give the Swarajists the impression that he would not use his powers of certification if the Assembly voted against 1s6d. Blackett's ambiguous position over the ratio was well known and Irwin's sympathy was thought of as a move to ensure that reserve powers would not necessarily be called to nullify the Assembly vote.

Irwin to Birkenhead, February 23, 1927, p.16, Reel one, Halifax Papers.

"Another not uninteresting illustration of the Indian wind is that I am told that the general commendatory sentence that I put into my speech to the Assembly in regard to the debt that India owed Blackett for his handling of her finances has been taken to connote a determination on my part not to certify the 1s6d if the vote in the Assembly was in favour of 1s4d. This is pretty subtle reasoning that I gather is suggested by the idea that I took this opportunity of throwing a banquet to him in order to make it easier for myself not to support him on the main issue later. The impression is certainly a wholesome one as it will make them approach their vote with greater responsibility."
When the Currency Bill was being discussed in February 1927, one of the more vocal and persistent Indian demands was for the establishment of a Gold Standard. The Secretary of State refused for a number of reasons; the quantity of gold required alarmed treasury officials and would have probably meant the eventual amalgamation of the Gold Standard reserve which India Office was anxious to avoid. Additionally, a gold currency would have denied the monetary authority the capability of manipulating currency and remittances might have been made that much more difficult to guarantee. In spite of this the Viceroy wrote to Birkenhead requesting that he assured the Assembly that the Government of India was prepared to consider the

1. The Gold Standard was considered by many to be a more substantial issue than the 'battle of the ratios', and was widely discussed in newspapers and journals. The arguments revolved around whether the Commission's recommendation of a Gold Bullion Standard was equivalent to a Gold Currency Standard originally suggested to make the rupee entirely automatic. Hindustan Times, October 16, 1926, p.1; October 23, 1926, p.5; November 3, 1926, p.11; December 17, 1926, p.12.

The Bombay Chronicle was more radical on this matter and believed that the Gold Standard was a more central issue than the war of the ratios, August 14, 1926, p.8; August 19, 1926, p.10.

2. Irwin to Birkenhead; August 12, 1926, Reel one/Volume four, Birkenhead Papers.
Gold Bullion in principle, which would have made Basil Blackett's work in the Assembly that much easier. ¹ It was a nominal demand but Birkenhead did not consider it necessary to compromise.

The Viceroy faced a very determined and rather harsh India Office which would have none of its policy initiatives altered; yet the Viceroy had an equally difficult job managing India through an Assembly that was not willing to accept the same policy initiatives unconditionally. ² Thus the differences that arose between the India Office and the Viceroy were not over strategic issues that had long been discussed and accepted, but over tactical devices to accommodate Indian opinion.

¹. From Motilal Nehru to elected members of the Legislative Councils, the Council of State and the Indian Legislative Assembly; November 11, 1924, p.371, P.T. Mss 40/II.

"Efforts are being made everywhere in the country to close up the ranks of national workers, as it is becoming abundantly clear that there can be only two parties in India - the bureaucracy and their friends on the one hand, and the people on the other. The methods pursued are different, but the differences between the parties are more superficial than real."

². Birkenhead to Irwin, January 1927, pp.4-5, Reel one, Halifax Papers.

The Secretary of State even over the currency issue quite clearly and categorically recommended that if the Legislative Assembly passed an unfavourable vote, then certification to overrule the vote would have to be used.

"... if unfortunately we fail to secure the support of the Legislature, it may be impossible to take any other course i.e., other than use the powers of certification."
In a letter to Sir Arthur Hirtzel, the Viceroy saw the distinction, he wrote:

"As regards policy, I cannot help thinking that the Government of India and the India Office have rather got at cross-purposes with the result that the discussion has become needlessly controversial; the Indian Office having acquired the impression that we are positively obstructive unit. There are, of course, differences of opinion on points of detail, even out here... but on the main principles we are all agreed."1

These disagreements did not centre around the currency question alone, which was a very small part of the weekly exchange that took place between the Secretary of State and the Viceroy. Questions of political importance such as the Simon Commission in 1928 relegated matters on currency to the background, but whatever the issue it became increasingly clear that Irwin was consistently in search of some via-media between the need to preserve the appearance of Legislative procedure and the insistence to implement directions of the India Office.

Irwin's perception was quite possibly because he understood that the key to India politics and the political opposition was to be able to rule through an ever more elaborate illusion of surrendering power. All

1. Irwin to Sir Arthur Hirtzel, Permanent Under Secretary of State for India, December 23, 1926, p.171, Reel one, Halifax Papers.
through his shrewd games in unsettling the Assembly he repeatedly reminded himself and Birkenhead that if all else failed, he would use his Reserve powers to decide the currency ratio. Irwin's rhetorical flourishes on democratic procedure were hollow, bogus assurances that lulled Legislative parties and the Congress into accepting the Assembly as a genuine concession. This make believe was necessary if not vital.

**Official Intrigue: Swarajists and Mohammedans**

After Bardoli and the Non-cooperation Movement, the Congress that emerged under Gandhi was a political consideration of no mean importance. It was the first time that a truly nationwide struggle had been conducted in which Congress had achieved a cohesiveness based on a political opposition to the Raj. Never before had an agitation been undertaken on the scale of the Non-cooperation Movement and its militancy was bound to spill into every other arena where British rule was questioned.

Irwin knew better than to confront and arouse this militancy. The Montford Reforms had been conceded with great gravity, and Irwin could not afford to make a mockery of Legislative procedure unless the opposition seriously threatened the working of the Imperial machine. Thus, if it was the strength of nationalism that forced
reform, the Indian Government could rest assured that it was sufficient to make grand promises and construct an elaborate machinery to quell that demand for reform. It was always possible to wait for the detailed implementation of those promises, by which time the substance of the concessions would be bargained away and lost.

But even in dividing the opposition skill was essential. Nationalism even in times of political inactivity had a certain resilience, which was undeniably important. Moves towards political unity were not uncommon and it was this momentum that underwrote a move by Motilal Nehru in 1924 to combine the Swaraj Party, the Independent Party and the Liberal Party in the Legislative Assembly on a platform from which a strong and united attack could be launched on the government.  

1. Two years later the spirit was very much the same. With a view to creating an atmosphere favourable to the evolution of a united programme for the parties competing in the election campaign for the Legislative Assembly, the Chronicle reported:

"It is unfortunate that during the present election campaign the things that divide Indian Nationalists have been given greater importance than those that unite them. The supreme need of the country is the formulation of a programme of action that will command the approval and evoke the cooperation of all parties in the country. Such a programme is not only desirable but feasible."

The Bombay Chronicle, November 1, 1926, 'What the Candidates Say'.

2. Motilal Nehru to Purshotamdas, September 23, 1924, P.T.Mss 40, Part II.
Though Motilal Nehru's initiative did not eventually result in harmonious cooperation between the Assembly parties, it was significant because he felt that it is desirable for all parties to revise their policy and programme and try and find common ground.

In his correspondence with Birkenhead, the Viceroy foresaw that the new character of the National Congress, in which the Muslims were equally at home, was not going to be easy to deal with. In 1926, when

1. Swaraj Party Circular, September 18, 1924, P.T.Mss 40, Part II.

2. On February 15, 1927 with the Assembly vote scarcely a month away the Congress had begun to grow more firm in their support of Purshotamdas' ratio.

"The news that the Party is divided and that everyone is at liberty to vote is baseless. The Working Committee has decided in favour of ls4d in the permanent interests of the country. A widespread propaganda is being carried on in favour of the ratio as wanted by the government as if that would benefit really or permanently any section of Indian interests and the country must set its face sternly against this attempt."

But this was far too late. At this juncture the belief that the ls4d rupee was a millowners demand had settled far too deep and it was difficult to suspend this suspicion entirely. Had the Congress declared itself unhesitatingly for a defeat of government in the Assembly, there is evidence to show that the agitation would have been difficult to contain.

Hindustan Times, February 15, 1927, p.2.
the Currency Bill was being bandied about between the government and the Hilton-Young Commission, and had not yet assumed its final form, Halifax understood the nature of the debate that was beginning to grow around the rupee ratio. He predicted that although the rupee ratio was a cause for fireworks, the real issue would be a question of a Reserve Bank.¹

In the coming years, this proved correct in not just that the Bank Bill was a more straightforward political quarrel over the control of a Central Bank, the issue had a larger and more substantial implication. No longer could the administration rely on a brutal indifference to the petitions for a greater political responsibility and more substantial concessions; genuine national protest could not be ignored. The Muslims organised in the League had their differences with Congress, but there was little doubt that by the 1920s many of League's most prominent spokesmen saw the British as the greater enemy.

The British official was to some extent aware of the problem. In March 1928, when Vithalbhai Patel had caused the government a good deal of embarrassment over the Reserve Bank Bill, the Viceroy had to admit that his

¹ Irwin to Birkenhead, September 23, 1926, p.113, p.4, Para 4, Reel one, Halifax Papers.
defiant attitude towards the Member for Finance and the official benches had made Patel much of a hero to public opinion. Nevertheless when a Muslim loyalist, Ghuznavi, approached Halifax with a request that he be allowed to oust Patel from the Assembly, Halifax discouraged him.¹ He wrote to Birkenhead explaining that any move on the part of nominated members to destroy Patel's position by using loopholes in Legislative procedure would have attracted such public criticism that this move might have forced the Swarajists to boycott the Assembly.² The Viceroy could clearly see the weakness of anti-national forces whether within the Assembly or without, and the traditional approach to Indian demands had, in fact, to be altered, if not abandoned altogether.


"Ghuznavi, the Bengal Muslim in the Assembly came to see me yesterday, and is busy trying to organise an anti-Patel move with the objective of what he calls 'driving the old man out.'"

² Irwin to Birkenhead, Ibid., p.49

"His zeal may be a little embarrassing to government as we neither wish to make Patel into a martyr nor disappoint our friends in the Assembly by leaving them in the lurch in what would be a pitched battle of absorbing interest if it came off. My impression too is that if it does come to this, the anti-Patelites would fail to carry their point and failure in such a business could be gravely damaging."
In Britain, the constitutional position and the Montagu-Chelmsford reforms formed an important part of the liberal outlook on the management of Indian affairs. There was an important body of liberal opinion among administrative officials in India, and among public men in England as well, that India must be allowed self-government however limited it actually was. Thus, the Viceroy and the Secretary of State were compelled by both a 'troublesome' national movement and a substantial sympathy at home with the constitutional principles of government in India to act cautiously and with restraint. When the Currency Bill was won in the Assembly, no less than the King-Emperor wrote to Irwin:

"His Majesty was delighted that the Rupee Ratio Bill was passed (though with a small majority), about which your letter expressed some anxiety. His Majesty was also delighted that the Bill did carry through, otherwise the norms of government might have had to be violated."  

1. Irwin to King-Emperor, August '24, 1926, p.12, Reel one, Halifax Papers. Irwin explains to the King why the Bill has to be carefully handled. He said in relation to the Currency Bill that:

"... we thought it right to bring the matter before the Assembly at the earliest moment, as although we obviously laid ourselves open to the charge of rushing them, we should have been open to an even stronger attack if we had enabled them to say that we had failed to consult them on a matter which could not obviously be left in doubt."

It is this concern with preserving the belief that reasonable Indian interests were consulted, which is significant.

2. The Rt. Hon'ble Lord Stamfordham to Irwin; March 21, 1927, p.16, Reel one, Halifax Papers. Irwin's correspondence with the King-Emperor, Halifax Papers.
For the King to have remarked that he was delighted that the 'norms of government were not violated', suggests the reasons why the Indian Government was as anxious to conciliate rather than command a vote in the Legislative Assembly.

By 1925, the Hilton-Young Commission had submitted its recommendation in favour of the 1s6d ratio and the ambiguity of the government in regard to the level at which the rupee was to be pegged gradually disappeared. The industrialists had for some time insisted on the 1s4d rupee and as opinions in favour of one or the other ratio hardened, battle lines were drawn and the contest became a sharp exchange on the merits of the 1s6d rupee versus the 1s4d rupee. The Viceroy appreciated the problems involved and approached the Assembly with a certain ingenuity.

It was for this reason that by the inter-war period particularly so with Viceroy's of stature such as Halifax, that a detailed articulation of political tactics is seen illustrated with such clarity. The Swarajists, it seemed to Irwin, was a particularly obstructionist group among whom he would find no commanding figure large enough to
cooperate with government. This did not stop him from acquainting himself personally with leading figures amongst the Swarajists and evaluating the utility in furthering or hindering government in the Assembly. He believed C.R. Das and Motilal Nehru to be reasonable men.

1. The Swaraj Party that had been ushered into existence in the Indian political world ostensibly as a challenge to Mahatma Gandhi's creed of political non-cooperation, proclaimed that the members of the party would encourage non-cooperation from within (the system). In August 1926, the Swaraj Party was under fierce criticism especially of Lala Lajpat Rai and Swami Shraddanand that its efforts at obstructing Council work had come to nought. Its recourse to 'walk-outs' in protest against unpalatable Legislative debates dominated by the official benches, went against its declared intention of working within the parameters of a working Legislature. An opinion was beginning to rapidly form among those who were an audience to the antics of the Swaraj Party, whether the party had any relevance whatsoever. This encouraged a more spirited outspokenness amongst certain members of the party, to which the Viceroy responded angrily labelling them as an obstructionist group.

See Hindustan Times, August-October 1926, especially an article published on the October 7, 1926 entitled 'Swaraj Party' written by Mr. C.P. Singh Vakil Dehra Dun'.

Also Hindustan Times, October 22, 1926, 'The Rise of the Swaraj Party'.

2. Irwin to Birkenhead, September 2, 1926, p.93, Reel one, Halifax Papers.

Irwin makes an attempt to enlarge his contact with the Swarajist leaders which he sees as an important way in conciliating them.
who had been overtaken by younger radicals in the
Swaraj Party, which led Irwin to appreciate the
differences and the antagonisms that plagued the Party.

The rupee controversy was an ambiguous issue and
the Swarajists were, to the discomfort of Purshotam, divided
over whether the 1s4d rupee was in the best interests of
the country.¹ Knowing that the efforts to force a unity
among the Swarajists had been largely unsuccessful,²
Irwin planned a short Assembly suggestion in the hope that

1. Irwin to Birkenhead, May 10, 1926, Reel one, p.23,
Halifax Papers. Attitude to the Swarajists is
interesting. Irwin suggested a short session
designed to make the Swarajists understand that the
Assembly would be conducted without their
participation.

"They must either abandon their attitude of
melodrama and return to it, or absent themselves
from it, and let it be clearly seen that the machine
can get on without them."

Nevertheless Irwin fully realised that, without the
sincere participation of the elected parties and
the most prominent spokesmen within the Assembly,
would have reduced it to impotence.

2. Irwin to Birkenhead, August 12, 1926, Reel one,
p.67, Halifax Papers.

"The Swarajists have decided to return to the
Assembly for the Currency Bill. They are divided
on their policy about 1s4d or 1s6d and I understand
that some of their members were emphatic in refusing
to allow the figures to be made the question of
party discipline."
the differences would be denied the time to resolve
themselves.\(^1\) Admittedly the inability of the Swarajists
to agree was not and could not have been entirely
precipitated by the shrewd Viceroy, however, crafty he
might have been. The general weakness of the 1\(\text{rd}\)d plea
was that it was vulnerable to the accusation that it
would raise the cost of living among the working class
and amongst the peasantry and this undeniably cost
Purshotamdas support.\(^2\) Purshotam failed to reach any

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1. On August 23, 1926, there were two amendments to the
Currency Bill both of which demanded that the Bill
be delayed. Mr. Jamnadas Mehta's Bill proposed that
a long adjournment be considered till it could be
referred to a Select Committee of the House, after
which the Assembly as a whole could be allowed to
vote or reject the Bill. The Independents led by
Jinnah, the Swarajists led by Motilal were not
totally in agreement about the Currency Bills but in
sharp contrast to Basil Blackett and the official
benches both wanted postponement. The Chronicle
reported that:

"Sir Basil Blackett will, it is learnt, make a long
speech tomorrow in the Assembly in moving for the
immediate consideration of the Bill."

The Bombay Chronicle, August 23, 1926, p.6, also
August 18, 1926, p.6, p.7; August 19, 1926, p.9;
August 25, 1926, p.5; August 26, 1926, p.10.

2. There was definite sympathy from the ranks of
Congress and from radical theorists such as K.T. Shah
for spokesmen such as Shapurji Saklatwala who stood
unhesitatingly for the interests of labour.
Saklatwala believed that Indian leaders had neglected
the workers of India and strongly suggested that the
Congress organise a workers and peasants party under
its auspices. As there was a suspicion that the
1\(\text{rd}\)d rupee went against the interests of labour, this
sympathy did not do the currency agitation any good
whatsoever.

compromise on this serious handicap in his fight for the lower ratio and continued to advocate 1s4d on the merits of the issue, utilising complex arguments which failed to carry sufficient weight.

The Viceroy's favourite defence of the 1s6d rupee was that the 1s4d rupee was really a conspiracy of Western Indian businessmen, an opinion that was strengthened by people like Saklatwala who privately expressed to Basil Blackett that the 16d rupee was:

"a capitalist ramp to reduce the wages of labour."

It was no surprise that the Swarajists who were never really articulate in matters of currency were seriously divided on the issue.¹

To magnify the growing differences, Irwin went a good deal further. Almost every conceivable calculation was made to manipulate the vote in the Assembly.

There were discussions between the Secretary of State and Viceroy about a question of timing as to when the Currency Bill should be introduced so as to maximise.

¹. Irwin to Birkenhead, August 12, 1926, Reel one/ Volume one, Birkenhead Papers.
See also, Ibid., February 23, 1927.
the possibility of a favourable vote. 1 Blackett argued that the Government of India must find any excuse to delay the Currency Bill, as with each passing month, the authorities could claim a greater justification in saying that the 1s6d rupee was in adjustment with world conditions. 2

The Viceroy, on Blackett's instructions, broke up the Currency Bill from the Reserve Bank Bill on the presumption that the Currency Bill was less controversial and had a greater chance of succeeding in the Assembly.

1. Viceroy to Secretary of State, August 12, 1926, Reel one/Volume one, Birkenhead Papers.

There was a universal suspicion that the government postponed the Bill because it was not sure of certification in the Assembly. The Hindustan Times reported that:

"The first reason for such a course may be that the Finance Member did not desire to revise his budget, which it is understood has been made on the basis of the 1s6d rupee. Secondly perhaps the Finance Member is not sure of his supporters in the House and is marking time till he is able to canvass sufficient support for it."

Hindustan Times, February 2, 1927, p.8; February 9, 1927, p.8; February 9, 1927, p.9; February 10, 1927, p.1 (an adjournment motion was carried 52/45 protesting against official delay in moving the Bills).

2. Viceroy to Secretary of State, August 26, 1926, pp.86-87, Reel one, Halifax Papers.
On the Reserve Bank Bill, a more substantial difference of opinion was bound to develop between the government and its opposition in the Assembly.\(^1\) So the Bill was delayed till the rupee ratio could be finally certified by the Assembly.\(^2\) In spite of the relative ease with which Blackett hoped to win the Currency Bill, manipulation of Assembly proceedings and its members was faithfully resorted to. The Currency Bill was coupled to the Budget and the Assembly was forced to consider a major issue like

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1. Even before the Ratio Bill had been defeated in the Assembly the Reserve Bank Bill was beginning to attract considerable attention. This was in spite of the fact that the Bill was circulated for opinion by the Legislative Assembly on the January 25 and given only three weeks in which to solicit recommendations. The Indian Joint Stock Banks fought for more time for public consideration which was eventually granted. This indeed helped the Bill attract greater public attention.

Hindustan Times, February 15, 1927, p.3; February 20, 1927, p.3; March 10, 1927, p.3; March 11, 1927, p.3.

2. A report in the Bombay Chronicle of January 27, 1927 called the delay a 'shameful manoeuvre' in which it was said:

"We cannot too emphatically condemn the action of the Finance Member in postponing the introduction and the discussion of the Bill regarding the exchange ratio till after the fullfledged budget is presented in March."
that of the budget that Irwin hoped would entirely overshadow and rob the Currency Bill of sufficient time to brew troublesome dissent.¹

Those who championed the 1s4d rupee would have the 1s6d rupee discussed separately from the budget. Those who championed the 1s6d rupee would have both discussed together.²

Interestingly, the government was thwarted in its plan to have the Currency Bill discussed along with the budget.³ The Viceroy in his weekly letter to the Secretary of State went as far as to accept a minor defeat at the Assembly, but that he would be equal to the challenge once the Currency Bill was called into the Assembly for a vote.⁴

¹. Irwin to Birkenhead, February 3, 1927, p.16, Reel one, Halifax Papers.

². Irwin to Birkenhead, February 3, 1927, p.15, Reel one, Halifax Papers.

³. See Hindustan Times, March 6, 1927, p.9; March 8, 1927, p.2; March 9, 1927, pp.2-3, 5; March 9, 1927 (Editorial), p.9.

In another masterly act of timing, the Viceroy used the Mohammedans in the Assembly and courted them on the currency issue.¹ A few weeks earlier differences had arisen over the election of a Deputy President of the Assembly between the Swarajists and the Mohammedans,² calling to notice the important concessions that the

1. Purshotamdas to Chunilal Bhaichand Mehta, March 10, 1927, p.175, P.T.Mss 55/II. The tactics of government did eventually work as Purshotamdas was himself aware after the voting in the Assembly had taken place.

"Nineteen elected Mohammedans voted with the government and I am afraid the issue over the ratio has been decided on communal differences and not on its merits."

See also, letter from Purshotamdas to B.F. Madon, February 25, 1927, about the government favouring Mohammedans a few weeks before the crucial currency vote. Purshotam said to Madon:

"The latest method is that some petty officials of government are teasing Mohammedans and a few others with our money."

p.17, P.T.Mss 52.

2. Sir Alex Muddiman was instructed to encourage the Mohammedans to put up a nominee of their own against the Swarajists, a nominee who was elected with support of the government. Irwin calculated that the gratitude of the Mohammedans would force Jinnah to vote with government for the 1s6d and defeat Purshotamdas and the Swarajists on the lower ratio.

Irwin to Birkenhead, February 3, 1927, p.16, Reel one, Halifax Papers.

_Hindustan Times_ reporting on the election said:

"This time however communal consideration has predominated and what would have been a happy consumation if only there had been coordination by the combination of circumstances, led to a complex situation."

_Hindustan Times, _February 1, 1927, p.2. The two protagonists were Mr. Neogy and Mr. Sherwani.
Muslim community had always received from the Government of India. The Finance Members requested a favourable vote on the Currency Bill. Indeed the Muslims did vote as a block on the Currency Bill, but as Blackett later reported to the Viceroy, the Mohammedan vote was a close thing. ¹ Had the government not been able to present the Bill and complete discussion in good time, the Mohammedans would have insisted on going to get some food as they had fasted the entire day and the vote would have been lost with grave consequences for government.

It is difficult to evaluate the influence that such ridiculous incidents had on government policy but what this does convey is the nature of the Currency Bill itself. The protagonists in the debate were loosely matched and the issues were not as clear cut or as definite as the Bombay millowners would have us believe. The 1s4d versus the 1s6d was a 12 per cent difference that overvalued or undervalued the rupee and this margin was in actual point of fact a negligible disadvantage, especially in 1927 when the world depression of the 1929-30's was unforeseen. This made the Viceroy's task that much easier. The Viceroy's attitude towards the Swarajists, his manipulation of Assembly procedure, the Mohammedan vote

¹ Irwin to Birkenhead, March 9, 1927, p.39, Reel one, Halifax Papers.
were all carefully worked tactical details. The ambition was to prevent an explosive sense of outrage, the opposition had to be broken but with care and subtlety. However, this game of official intrigue and counter-intrigue could only prove fruitful if there was a fundamental weakness inherent in the demand for the 1s4d rupee. The weakness was, in point of fact, not far below the surface.

Millowners and Money Stringency

The real substantial reason behind the millowners' campaign against the 1s6d rupee was the condition of money stringency that had become a serious problem to commercial and industrial interests in Bombay. The scarcity of


See Purshotamdas Thakurdas to A.C. McWatters, January 25, 1924, p.571, P.T.Mss 44.

"Is government aware that the position is so bad that call money between bankers is practically unobtainable even at Bank rate. Inter-bank rate is usually far below bank rate."
currency was the result of persistent contraction\(^1\) that the Controller of Currency was forced to undertake, if the 1s6d ratio had to be maintained in the Bombay and Calcutta money markets.\(^2\) This physical removal of currency forced the rate of interest up and millowners as well as export

1. From 1924 to 1932 when gold began to buoy up exchange the persistent contraction was discussed in the columns of almost all leading newspapers that had some interest in the economic pulse of the country. The effects of the higher ratio on the agriculturist, industry, government and on trade were extensively and quite often authoritatively discussed. See the following:

*Indian Daily Mail*, September 25, 1928, 'The Effects of the 1s6d Ratio'.

*Capital*, November 1, 1928, Correspondence entitled 'The 1s6d Ratio'.

*Pioneer*, November 8, 1928, Correspondence entitled 'Disastrous Effects of the 1s6d Rupee'.

*Capital*, September 20, 1928, Article by Purshotamdas Thakurdas, 'The Effects of the 1s6d Rupee'.

*Swarajya*, March 20, 1929, 'Present Exchange Ratio - Its Evil Effects'.

*The Bombay Chronicle*, September 6, 1929, 'The Ruinous Ratio'.

*Servant of India*, May 15, 1930, 'The Exchange Middle in India'.

*Free Press Journal*, June 27, 1931, 'Proppping up the Wrong Ratio'.

*The Bombay Chronicle*, September 3, 1931, 'Establishing Stability by Shaking Credits'.

*Daily Herald*, September 4, 1931, 'Government is Heading for Chaos in India'.

*The Bombay Chronicle*, September 4, 1931, Editorial entitled 'Frenzied Finance'.

*Free Press Journal*, September 20, 1931, 'Exploitation of Weak by the Strong'.

2. This was especially so if cotton was moved early in late harvest districts of Broach and Southern Bombay, demand for money could grow unbearably strong.

merchants had to pay large sums in interest payment and debt redemption for working capital in Bombay City.¹

The Bombay millowners complained² that in 1926 the monetary stringency and rates of interest on short notice money were so high that middlemen were unwilling to pick up stocks of mill products.³ The millowners revealed that

1. B. F. Madon to Purshotamdas, January 20, 1924, p. 565, P.T.Mss 44.
   "The customer which requires such finance most badly today is the exports which mean our own produce and it cannot be good either for the trade or for the country to have our own exports starved for finance."
   Also Note by the Sub-Committee on Finance for the Indian Merchants Chamber, Bombay, July 13, 1924, p. 541, P.T.Mss 44.
   "The working of government policy has, while preventing exchange from being rushed up, done our industries quite serious harm by creating monetary stringency."

2. The Indian Daily Mail reported that a memorandum presented by the Native Share and Stock Brokers Association to the Viceroy claimed that the sixteen penny ratio had radically disturbed the Bombay money market artificially raising rates of interests. The textile mills in particular were hurt by the disorganisation of trade brought about by contraction of currency and exchange manipulation.
   '... contraction of currency in support of the government's exchange policy and unwarranted by the state of trade can only result in the pulling down of prices, leading to forced liquidation of stocks, and discouragement of trade.'
   Indian Daily Mail, September 11, 1929, 'Plea for Sixteen Shilling Ratio'.

3. Ibid., p. 547, P.T.Mss 44.
   "Traders and industrialists find it very difficult to meet their liabilities from day-to-day, and the result has been that on one hand dealers refuse to buy except absolutely from hand to mouth and are anxious to liquidate stocks as rapidly as possible while the consequence on the other hand has been that consumers... make their buying also from hand to mouth."
   See also Statesman, June 24, 1925, 'Indian Interests in Bombay'.

the total amount of unsold yarn and cloth in Bombay City was evaluated at 8 crores of rupees; if the figure was accurate there is little question of just how acute the contraction of currency was. On September 4, 1924, in a letter to Purshotamdas, Pherozeshah Dalal's chief worry was that the repeated contraction that preceded every tender for sterling would induce Exchange Banks and even Presidency Banks to curtail credits to industrial

1. From 1926, when the 1s6d rupee was legislated to the beginning of the depression the amount of net deflation pursued was as follows:

<table>
<thead>
<tr>
<th>Through Indian Securities (in crores)</th>
<th>Through English Securities</th>
</tr>
</thead>
<tbody>
<tr>
<td>October 7, 1926</td>
<td>-</td>
</tr>
<tr>
<td>March 31, 1927</td>
<td>7.81</td>
</tr>
<tr>
<td>April 7, 1927</td>
<td>-</td>
</tr>
<tr>
<td>August 15, 1927</td>
<td>5.01</td>
</tr>
<tr>
<td>February 29, 1928</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td><strong>12.82</strong></td>
</tr>
<tr>
<td><strong>Grand Total:</strong></td>
<td><strong>44.35</strong></td>
</tr>
</tbody>
</table>

44.35 crores of currency deflation in 1928 was equivalent to 15 per cent of total circulation or 32 per cent of note circulation, a considerable amount by any reckoning.

Gazette of India for the relevant years. The accounts of the Currency Department officially entitled 'Abstract of the Accounts of Currency Department' was usually published on February 28th of every year, and reported in the Gazette of India by the 1st week of March.

Hence for 1928-29, See Gazette of India, March 9, 1929, p.485, Part II.
concerns as a result of the continued panic in the money market.\(^1\) In fact, the outlook was so dark that B.F. Madon commented that if there was no permanent cure for the inflated rupee and if Purshotamdas' bills were not passed then only "God can help us...."\(^2\)

In spite of the fact that the panic was sparked off by the speculators' nervousness about the Currency Bills in the Assembly prolonged stringency could seriously handicap the export trade.\(^3\) By September of every year, the Calcutta jute crop had peaked and the Broach Khandesh

\(1\). This did not suit the exchange banks as it curtailed legitimate business on their behalf and increased their cost of operation. The export trade and active commerce was as vital to them as to the Bombay commercial community. In September 1924, B.F. Madon wrote to Purshotamdas saying that the exchange banks without exception were willing to submit a representation to government that the Bank's ratio should be restored to 1s4d, but that the banks demurred because in consultation with their branches in Calcutta, they felt that-

"It was one of the business of the banks to advise government on such matters and it was for government to see that sufficient currency was provided in such ways as they thought best."

B.F. Madon to Purshotamdas, September 17, 1924, p.461, P.T.Mss 44.

\(2\). Pherozeshah Dalal to Purshotamdas, September 4, 1924, pp.437-39, P.T.Mss 47.

\(3\). B.F. Madon calculated that the exchange rate difference was costing the Bombay commercial community 34-35 crores annually.

Madon to Purshotamdas, September 23, 1924, pp.433-35, P.T.Mss 44.
cotton harvest would begin to draw funds away from Bombay for multiple operation associated with the trade and exchange of cotton. The volume of funds for the finance of the cotton crop could swell to 20-35 crores depending on the price quoted on the cotton exchange and if this occurred at a time when money was generally scarce, the problem could grow unmanageable.\(^1\) Scarcity of money artificially restricted the demand for both commodities and securities in Bombay and prices in 1924 winter did drop alarmingly.\(^2\) Investors in government securities found that their bonds were unnegotiable and were put to heavy losses in their efforts to find cash for their securities in order to make some provision for the heavy trade demand.

\[1\] The Bombay Chronicle justifiably claimed that the deflation that had been repeatedly pursued disturbed trade and delayed crop movement. The Chronicle complained that the agriculturist had to borrow money at a premium of 8 per cent annum because of the scarcity of money, or sell his standing crop at a huge discount over current rates.

"In fact, so rude has been the shock given to Indian trade and commerce and Indian agriculture in the districts by the policy of the government in the last two years, that the conditions now existing in the money market in which the masses of India are concerned are abnormal...."

The Bombay Chronicle, October 19, 1926, 'Rigging up the Exchange'.

\[2\] Merwanjee & Sons, Circular on Money Market, September 12, 1924, Purshotamdas Thakurdas Papers, pp.417-19, P.T.Mss 47.
associated with the movement of cotton.1 Merwanjee & Sons, a stock broker firm, that issued a weekly circular on the money market, warned Blackett that the shortage of money would drop the price of exportable raw material which would have a disastrous effect on the cotton grower.2 In 1924, when Purshotam's bills were being introduced in the Assembly in addition to the normal currency contraction, a nervousness had spread among speculators and the prices of government securities both long and short term began to decline. Pherozeshah Dalal in an effort to strengthen Thakurdas's argument in the Assembly reminded the government that Bonds due between 1924 and 1928 worth 95 crores would have to be reoffered at higher rates of interest.

1. Telegram from Pherozeshah Dalal to Purshotamdas, September 18, 1924, pp.379-84, P.T. Mss 47.

2. Many felt that the high exchange allowed the import of raw cotton whose prices were as a result kept low, damaging the earnings of the Indian Cotton Grower.

"Consequent on a high exchange there is of late a steady increase in the import of American cotton.... If the present disparity between the prices of American and Indian cotton continued the imports from America might go up to 3-4 lakhs of bales of cotton and that would mean goods worth 4 to 6 crores of rupees. Such imports would adversely affect the balance of trade and threaten to put India's currency system to serious test."

The Bombay Chronicle, October 8, 1926, 'New Exchange Policy'.

Indian Daily Mail, October 11, 1926, 'Basil Blackett's Irresponsible Banker'.

The Bombay Chronicle, October 8, 1926, 'New Exchange Policy'.

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Indian Daily Mail, October 11, 1926, 'Basil Blackett's Irresponsible Banker'.
interest to prevent remittance of the proceeds. This extra payment was bound to add crores of rupees to the already over-burdened exchequer, a consequence that Pherozeshah felt, the government was not aware of.

There is little doubt that the problem was serious but the weakness of the millowners' plea against the ls6d and the money stringency which was a direct outcome of monetary manipulation, was that the scarcity of money was a very specific problem. The lack of working capital was a handicap to the merchant and the industrialist whose dependence on liquid assets and credit was an intimate part of business procedure. If credit was not available, the

1. Pherozeshah Dalal to Purshotamdas, September 4, 1924, pp.443-45, P.T.Mss 47.

2. To obtain some relief against stringency, Bombay commercial interests were willing to go as far as to concede an entirely gold based currency. Accepting the Finance Members' fear that gold reserves were precious and that the lower rupee might endanger the sterling-dollar exchange, Pherozeshah Dalal suggested that Purshotamdas accept sterling securities rather than demand these reserves in gold and gold alone.

Pherozeshah Dalal to Purshotamdas, September 23, 1924, p.361, P.T.Mss 47.

3. Kirloskar, a manufacturer of Farm Machinery, wrote to Purshotam on March 3, 1927, p.163, P.T.Mss 55/II.

"It is needless for us to mention that we are already getting very hard competition from foreign manufacturers in respect of handpumps, nuts and bolts and other manufactured articles and the proposed legislation will give them a further protection of 12.5 per cent thus countervailing whatever import duty is placed on imported articles."
ability to distribute and sell commodities fell and so profits were reduced, forcing mill production to slow down.\(^1\) Thakurdas believed that the only remedy was to force government not to support an inflated exchange, but many saw this plea for the 1s4d rupee as a narrow provincial interest of little consequence to the economy as a whole. Even the Viceroy and the Finance Member anxious to divide and weaken the 16d campaign were aware that Bombay stood almost alone in its determined stand on the lower ratio.\(^2\)

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1. Bombay Millowners Association Memorandum to government, May 1925.
   
   Association was convinced that the depression in Bombay that had forced twelve mills to close their doors was a result of the currency and exchange policy of government. High exchange discouraged exports, tightened money, led to huge collection of unsold stocks etc.

2. The differences over the ratio had begun to develop long before the entry of Purshotamdas' Bills to the Legislative Assembly. Almost a year before, the debate had begun to harden growing more vehement in newspapers and journals in both Bombay and Calcutta. Following the issue of the Report of the Royal Commission on Indian Currency and Finance on August 3, 1926, its recommendations received a mixed reception in Bombay. The 'Bombay Chronicle' roundly denounced it under the heading 'Defrauding India'. It considered the report definitely retrograde and positively unacceptable document. The 'Times of India' on the other hand, described the report as excellent and the stabilisation proposals sound, but it criticised the proposals to establish a Reserve Bank, and saw no reason why the Imperial Bank should not have been developed as the country's Central Bank. The 'Evening News' while considering that the report had been well received, likewise criticised the proposed creation of a Reserve Bank. The 'Daily Mail' deprecated the hurried legislation on the Commission's scheme, and urged the Assembly to insist on the government bringing forward a whole scheme complete in all its parts.

...contd.
The Viceroy reported that:

"Speaking broadly, Calcutta opinion is not much affected by the agitation for the 18d ratio, which they regard mainly as a Bombay movement."

Indeed, it seems that Indian industrialists were very far from being united over the ratio issue and that differences between Calcutta and Bombay were serious in their promotion of the 18d rupee. It was dissension of this sort that confused the debate and any strong contest between the government and the Indian interests was not really possible given the division that prevented the Assembly from voting one way or another.¹

(contrd.)

The Currency Commission report was accorded a mixed reception in commercial circles in Calcutta. The European mercantile community welcomed the stabilisation of the rupee at 18d, on which the 'Statesman' had a leading article, which characterised the Commission's report as unchallengeable.

These differences were inherent in the political response to the Currency Agitation and was fruitfully exploited by the administration on the plea of the better good of Indian society in general. There were many who agreed.

1. The attack on Purshotam that he was merely a spokesman for the Bombay commercial community was to grow more and more virulent. In replying to a speech of Purshotam to the "Maharashtra Vyapari Parishad", the 'Bombay Samachar' said that though he was not willing to increase the punitive power of government for arrest and detention, he was obviously anxious to do away with Bolshevik influences and other such uncomfortable people whose

"... chief business in life is to decrease the profits of commercial men like Purshotamdas Thakurdas."

.../contrd.
Interestingly, Calcutta European commercial interests also suffered from money stringency that severe contraction could cause, but their reaction to the problem was not as radical as that of Thakurdas.¹

(contd.)

The Bombay Samachar's accusation contrasted Purshotam's attitude to the extraordinary authority of the government, with Purshotam's plea that the government had not acted in time in stopping numerous strikes organised by communist influences. Purshotam's complaint in his own words as reported by the Samachar sounds strangely ironic.

"Why have they (Government of India) not acted till now under the powers vested in them by the Regulations."

This nervousness quite definitely opened him to the charge that he represented only the narrow commercial interest of the millowner and that too to the Bombay millowner.

The Bombay Samachar, December 5, 1928, 'Creating False Judgements'. Also letter to N.M. Majumdar, July 7, 1929, p.185, P.T.Mss 42/II.

1. Merwanjee & Sons, Circular issued on September 5, 1924 titled "The Money Market", p.433, P.T.Mss 47, accuses Bengal Chamber of Commerce of being too cautious in their plea against money stringency.

The European commercial community in Calcutta had been growing suspicious of the rest of organisations that had begun to come into being from 1927 onwards. These organisations such as the East India Jute Association represented Indian interests and grew more powerful much to the resentment of the Bengal Chamber of Commerce. As the separate identities of the Indian commercial community and the European commercial community grew more tangible, competition and criticism of each other grew more vocal.

Birla to Purshotamdas, May 2, 1928, p.331, P.T.Mss 42/III.

See also, Purshotam to D.P. Khaitan, September 9, 1927, p.357, P.T.Mss Ibid.
Purshotamdas to Ghanshamdas Birla, May 5, 1928, p.325, P.T.Mss 42/III.

"I am sure that when you have begun really to tread on the toes of the Europeans they will try and obstruct you."
The Bengal Chamber of Commerce, a European body which had greater access to credit offered by Exchange and Imperial Banks, found that it was more important for the repatriation of profits to maintain the high exchange. So the Calcutta commercial community opposed the 1s4d ratio and believed that it was enough for the government to buy sterling in the Imperial Bank when cash balances showed a serious decline that might auger ill for trade. The Bengal Chamber attacked the

1. The Bengal Chamber of Commerce felt that the problem of exchange should be left to the experts that had been consulted by the Hilton Young Commission and that they were fully prepared to accept the verdict of government as long as stability was assured.

"The majority of the Commission had stated that the time was ripe for stabilisation and that the rupee would be stabilised at 1s6d. Therefore, Calcutta in general had accepted the Report and was satisfied with it. This explained to a great extent what had recently been called the apathy of Calcutta on the currency and exchange controversy."

Statesman, November 11, 1926, 'Stabilisation of the Rupee - A Calcutta View'.

2. Nevertheless the Bengal Chamber did feel and represented to government that there should be a steady increase in the supply of currency from year to year "as was the need of every progressive country."

See letter, B.F. Madon to Capital, September 12, 1924, p.381, P.T.Mss 44.

3. See 'Representation from the Secretary, Bengal Chamber of Commerce to the Secretary to the Government of India, Finance Department', July 19, 1924, p.521, P.T.Mss 44, B.F. Madon remarked on the representation that -

"It is instructive in many ways that evidently, even now the Bengal Chamber hesitates to tell government that the fault lies with the 2s ratio. Instead, they ask for currency to be freely exchanged at market rates which be around 1-4 ratio, our ratio 'de facto' and not 'de jure'." p.519, P.T.Mss 44.
Bombay interest through such newspapers as The Statesman to say that the controversy about the ratio concealed the fabulous dividends that the mills were paying at the time of the war boom. This form of criticism did not escape unnoticed.¹

Even in Bombay where one would have expected at least the commercial community to have been united, there were rifts and divisions that Purshotam could do very little about.² Bullion merchants who were interested in the stability of exchange, argued against any change till


"Their anxiety to revert to the pre-war rate of 16d is dictated more by considerations of their own profits than by a patriotic interest of maintaining a sound currency system."

See also, Reply to Editor of Capital, July 29, 1925, p.295, P.T.Mss 40, Part II and B.F. Madon to Capital, p.505, P.T.Mss 44, August 10, 1924.

2. In late November 1926, Purshotam was not only convinced that the Bombay commercial community was united on the 16d rupee, but that he had a good chance to win the Assembly vote on the issue. In a letter to Victor Sassoon he wrote excitedly of the warm support that he had received from almost every quarter, and the solidarity that 'aims at the promised land', in spite of the differences that may be. Little did he realise that in the middle of the next year the same differences would overwhelm the 16d agitation and the vote in the Assembly would be carried in favour of the government.

the dollar reached gold parity at 2.86 dollars to the pound and London reverted to the gold standard. The argument in favour of stability not only of exchange but of the general price of bullion was so strong that the bullion merchants opposed Thakurdas’s suggestion of a gold exchange standard mostly because they did not want to be subject to the control of American financiers at Wall Street.¹

Thakurdas appealed to an old friend, Kirkabhai Premchand whose brother Manecklal Premchand was the President of the Bullion Merchants Association in Bombay asking for some show of unity on the exchange question.² When Manecklal replied, he did so with great deference to Purshotam whom he acknowledged as not only a family friend but as a respected senior citizen, saying that the feeling in Bombay among certain business circles was that linking of the rupee to gold might lead to wider

¹. Telegram from Kirkabhai Premchand to Purshotamdas, January 21, 1925, pp.215-16, P.T.Mss 47.

². Purshotamdas to Kirkabhai Premchand, p.259, P.T.Mss 47, Purshotamdas Thakurdas Papers.

Kirkabhai to Purshotamdas, January 21, 1925, P.T.Mss 47.
fluctuation than what exists at present. His plea for a stable exchange was strong and the words in which he expressed himself were colourful.

"... while today if we may be at the sweet will of the Finance Member, we shall be worse off by being at the sweet will of the Yankee financier and the uncertain and rapid movements of the dollar."3

Manecklal went on to justify the 1s6d ratio saying that a 1s4d rupee would increase the burden on the exchequer and the subsequent unbalanced budget would

1. This feeling was quite widespread. In an interesting exchange of letters between Symons Barlow & Co. and Purshotam, A.N.F. Moore asked why the proponents of the 1s6d gold rupee wanted to expose themselves to the inevitable disturbances that the fluctuating price of gold would cause on a gold rupee. Moore expressed a puzzlement as to why Purshotam wanted to divert the silver based exchange and link it to the American cross rate that would make India dependent on the mercy of Lombard and Wall Street financiers Moore felt about the operations of the Wall Street financiers that - "Very few can comprehend and no one can foretell."

A.N.F. Moore, Symons Barlow & Co., to Purshotam, August 2, 1924, p.54, P.T. Mss 47.


3. This argument was also used by the Finance Member Blackett who constantly warned that it was very dangerous to tie oneself to the chariot of the Federal Reserve Board, which was what Blackett felt the gold standard meant.

B.F. Madon to Purshotamdas, January 29, 1925, P.T. Mss 44.
invite greater tax proposals in a country that was already taxed to the limit of its resources.¹

What was even more unexpected was an attack on Purshotam and the 1s6d rupee by the Bombay Chronicle, a normally nationalist newspaper.² The attack was coordinated by two correspondents, Wadia and Joshi, in consultation with an eminent economist from Bombay University, K.T. Shah, whose presence made the attack


   Though the reversion to the 1s6d rupee would probably lead to a deficit in the budget, the commercial community in India should suggest an additional taxation that in all probability it would itself have to bear. However, even if we suggest that additional taxation to the tune of 3-4 crores of rupees, the certain benefit in terms of greater trade and more approximate sum of 14-15 crores of rupees.

   Fazalbhoy Currimbhoy to Purshotamdas, February 9, 1927, P.T.Mss 55, pp.299-302.

2. After carrying a number of articles on Currency Reform by Wadia, Joshi and Shah, the Chronicle came out against Purshotamdas in an editorial. See the Bombay Chronicle, August 27, 1924, editorial entitled 'Indian Currency Reform'. The Chronicle agreed with Wadia, Joshi, and Shah in their belief that the Purshotamdas' Bills must be opposed because all they seek to do is increase token currency without making the Indian Rupee automatic as a result of which the urban poor will be directly hit and the agriculturists by the fact that manipulation would continue.

   See Voice of India, September 4, 1924, Editorial entitled 'Not Mere Tinkering'.

   Also The Bombay Chronicle, September 6, 1924, Editorial entitled 'At Cross Purposes'.

   Also Voice of India, October 16, 1924, Editorial entitled 'Currency Reform in India', came out with a strong attack on the I.M.C.
even more startling. K.T. Shah argued, and to some he argued very effectively, that any measure to fiddle with the ratio would only bring about a maladjustment between exchange and prices, and as a result of stationary wages, cost of living would rise. Social discontent would be the only harvest of any policy that did not go beyond adjusting the ratio. K.T. Shah believed that only a thorough going-reform of the entire currency system with a full-fledged gold currency standard where government's interference was kept to a minimum, could solve the problem. In spite of the areas of fundamental agreement with Thakurdas and the Bombay commercial community who were as anxious to have a complete gold standard, the attack was hurtful to Purshotam. The personal quality of many of Wadia's articles in the Bombay Chronicle attracted a good deal of attention and Purshotam wrote a bitter letter to the Editor complaining that Wadia was sabotaging an effort whose failure would destroy any

1. From K.T. Shah and G.N. Joshi, Memorandum addressed to Basil Blackett, Finance Member, Govt. of India, January 25, 1925, p.163, P.T.Mss 47.

2. Ibid., pp.167-69.
chance of appealing for a gold currency. Only a more persistent campaign for a gold currency could convince the authorities that the Indians must have monetary control over the rupee and thus its proper place was with

1. B.F. Maden also protested sharply at the anti-Purshotam tirade of the 'so-called' professors of economics on behalf of the I.M.C.

Letter to 'The Times', 'The Bombay Chronicle' and the 'Daily Mail' regarding a letter appearing in 'Chronicle' under the signature of Wadia and Joshi, August 1, 1924, p.513, P.T.Mss 44.

The Wadia, Joshi letter appeared in 'The Bombay Chronicle' on July 31, 1924. Letter entitled 'Sir Purshotamdas Bills'.

B.F. Maden's reply in the Bombay Chronicle appeared on August 2, 1924.

Purshotamdas' defence appeared in the Times of India on August 2, 1924 and in the Bombay Chronicle on August 4, 1924.

Wadia and Joshi continued the debate in letters to the Bombay Chronicle, August 7, 1924 and to the Times of India, August 7, 1924 both entitled 'Sir Purshotamdas' Bills'.

A particularly interesting criticism of Purshotamdas on grounds that supported the Wadia and Joshi attack on Purshotamdas' Bills, was written by T. Alim to the Voice of India on August 15, 1924. Letter entitled Currency and Exchange Problems.

On August 23, 1924 Wadia, Joshi joined by K.T. Shah addressed a petition to the President of the Legislative Assembly. See, Times of India, August 23, 1924, report entitled 'Currency Problem'. The President of the Legislative Assembly was at that time Sir Alexander Whyte.

H.L. Chablani joined the fray in a letter to the Bombay Chronicle on August 25, 1924, attacking Wadia, Joshi and Shah.
issues such as the Reserve Bank. These divisions were vitally important to the whole campaign and Purshotam was especially vulnerable to such attacks.¹

**Failure of the Currency Bill**

The Wadia, Joshi and Shah memorandum to Basil Blackett was not an opinion which stood alone with little support from nationalist interests.² No less a figure than Gandhi, wrote to Purshotam that he had seen

1. The attacks were often bitter and indiscreet; a small illustration of the accusations that were generated by the controversy.

   Manu Subedar to Purshotam, April 16, 1931, P.T.Mss B5. An article appeared in the 'Statesman' about which Subedar said:

   "I have not seen in print anything more filthy than the insinuation of this article, which seems to maintain the power of the Englishman in India in the commercial and financial field because if that power goes, Bombay would gain and not the rest of the country. It speaks as if the exchange and currency reforms and the opposition to the safeguards are only for the good of Bombay."

2. Even B.R. Ambedkar who was considered an expert on matters of currency, came out in a spirited attack on Purshotamdas' 1 shilling 4 pence ratio. Dr. Ambedkar classified society into three divisions viz. the investing class, the business class, and the earning class which he believed represented a categorical social cleavage which harboured divergent interests. Dr. Ambedkar explained that any attempt to lower exchange to 16 penny would benefit the business class at the expense of the other two.

   Indian Daily Mail, March 8, 1925, article entitled 'The Currency Problem'. A report of a talk given by Dr. B.R. Ambedkar to the Indian Institute of Political and Social Sciences.
a draft by Wadia on the currency issue and had agreed with some of its conclusions.\(^1\) Gandhi asked Purshotam if the currency ratio was not redundant and that if more time was devoted to tackling the root of the problem, by petitioning for a gold standard, a gold mint and a Reserve Bank, the substance of controversy could be approached. Purshotam explained that these matters were best tackled when a Reserve Bank Bill was introduced and he explained what victory might mean if the government was opposed and defeated on this limited reform.\(^2\) Apart from Purshotam's reply, what is more substantial is that the ideas of Shah had achieved some attention and there was a suspicion that Purshotamdas represented Bombay commercial interests at the cost of the urban poor whose wages would suffer with any reversion to the lower ratio.\(^3\)

\(^1\) Gandhi to Purshotamdas, February 22, 1927, Sabarmati Ashram, Poona. I was able to read this one reply to Purshotamdas because as Gandhi wrote:

"As it appears to be more convenient for you to handle English letters. I am sending you this in English."

pp.223-25, P.T.Mss 55/II.

\(^2\) Purshotamdas to Mahatma Gandhi, February 2, 1927, pp.223-25, P.T.Mss 55/II.

Also Purshotamdas to Gandhi, February 29, 1927, \textit{Ibid}.

\(^3\) Motilal Nehru to Ialji Naranji, April 21, 1928, p.121, P.T.Mss 40/IV.

Motilal was bitter at the stand that the 'merchant princes' of Bombay and Ahmedabad had taken over the currency issue. He remarked:

"An alliance between the Congress and the capitalists who are bent on profiting by the suffering of the nation is an impossible one."

...contd./-
This lack of strong support from the Congress and from the Congress Party's premier figure Gandhi weakened Thakurdas' fight for a joint front in the Assembly. The swarajists divided on the issue, Motilal was ambivalent and infighting grew as differences widened. Just before the Bill was considered in early February of 1927, nine members of the Swaraj Party threatened to secede if they were not given the liberty to vote as they pleased in the matter of the exchange ratio. Motilal Nehru reported to Purshotam that he was undecided on the merits of the 16d rupee, but even though he agreed to vote against the government bill, such lukewarm support considerably weakened the 1s4d issue in the Assembly.

Purshotam, in his letters, reflected this nagging anxiety that differences on the currency bill were growing

(Footnote contd...)

With a heavy sarcasm he congratulated the mill-owners on their devotion to the government and the Banks that the government controlled after the abolition of the excise duty and the fight for the 1/4.


too strong for him to control. In the Assembly itself the nominated members whose indifference to the Currency Bill was only matched by their loyalty to government,

1. Though there is little evidence of the publicity and attention that problems of the working class were beginning to attract, it is clear from a letter written in 1929 from N.M. Mazumdar in London that the millowners were worried about working class organisations and the influence of the Communist Party. The Russian example is particularly damaging to the capitalist cause and radical ideas circulated by Pravda and the organs of the C.P.I. are pointed to as a reasonable for concern. Sir Dorabji Tata suggested a strong capitalist organisation to combat the evil and Purshotamdas believed that some progress in the matter could only be made if the sources of such Bolshevistic ideas were scotched within the borders of India. It would not be unreasonable to presume that the Congress and radicals within the party were influenced by prevailing ideas about the plight of the working class to suggest that the millowners must not be given whole-hearted support. The Wadia, Joshi, Shah memorandum could have its origins in these concerns for the working class made popular by the C.P.I.

See letter to Purshotamdas, July 3, 1929, p.985, P.T.Mss 42, Part V.

See also, Purshotamdas to N.M. Mazumdar of Tata Ltd., July 24, 1929, p.981, P.T.Mss 42, Part V.

"Purshotamdas Thakurdas suggests that FICCI can perhaps be that strong capitalist platform by which the poison could be combatted."

See also, 'The Daily Mail', July 2, 1929 'Poisoning India' Moscow boasts of causing strikes - based on 'Pravda', June 22, 1929.
inevitably proved to be the rural Mohammedans or petty Hindu Princes.¹ During the currency debate itself there was a noticeable and fast developing conflict between the nominated members and the more articulate urban, industrialist and political spokesmen. The sentiments aroused were more often than not, entirely unconnected with the currency issue and though respected figures like Ibrahim Rahimtulla had to repeatedly remind the house that the currency issue was not a racial question, divisions on the floor inevitably ended with a Hindu-Muslim confrontation. At times, the debates had their lighter moments as when K. Ahmed, after a particularly heated exchange, rose to say that how could any spokesmen of the commercial community have the right to speak for Indian interests when capitalists were not of this country.²

1. Both Purshotamdas and Basil Blackett agreed that the ignorance of the Legislative members over the currency issue was deplorable. Purshotam wrote saying:

"It may be true that there are not many people in the Assembly who understand much of the exchange problem. But in the interests of the country we must do the best we can with the existing material."

Purshotamdas to Blackett, August 15, 1925, p.501, P.T.Mss 47.

2. K. Ahmed, Rajshahi Division: Rural Mohammedan; March 21, 1927, p.2125, Legislative Assembly Debates, Vol.IX.

Purshotam to Pheroze Shah, September 10, 1924, p.407, P.T.Mss 47. Purshotam is not entirely aware that the refusal to give him Assembly time was a part of an ingenious plan to prevent discussion and debate on the sensitive issue.
Much of this unnecessary sentiment disturbed Purshotam who wrote to a personal friend, Siavakshaw Bomani to say that:

"We have still got to struggle with all the handicaps of Hindu-Muslim dis-unity and with fundamental differences between Mahatma, Das and Nehru. The whole show strikes me as being very depressing. In the absence of any outstanding personality as a leader, every Tom, Dick and Harry claims to be a leader himself."  

In addition to this, the government used every political trick it knew to keep Purshotam's Currency Bills from acquiring a favourable vote.

1. Letter from Purshotamdas to Siavakshaw, R. Bomani, August 1, 1924, p.557, P.T.Mss 47.
   See also, S.R. Bomani to Purshotam, July 14, 1924, pp.553-55, P.T.Mss 47.

2. Delay, for instance, was used against Purshotam's Currency Bills with great effect and the Secretary of the Legislative Assembly, Henry Moncriff Smith denied Purshotam leave to present his bills till the last few days of the Session and even then reluctantly.
   See especially, Purshotam to Fuzulbhoy Currimbhoy, August 31, 1924, p.461, P.T.Mss 47.
   H.M. Smith to Purshotam, August 28, 1924, p.479, P.T.Mss 47.
   See, Sir H.M. Smith to Purshotamdas, July 31, 1924, p.535, P.T.Mss 47.
   Secretary to the Legislative Assembly, July 2, 1924.
Nevertheless, though the Currency Bill was a difficult issue in the Assembly it was in reality the personal crusade of one man Purshotamdas whose opposition to the rupee created so much delay and irritation to government. Indeed, there is a grudging respect of this one man by Irwin who wrote to the Secretary of State to say that it was dangerous to antagonise Purshotamdas as Blackett had done in his stubborn opposition to this man's demand for a 16 d rupee. If Purshotamdas had been more gently treated the Government of India would have had much less trouble.\footnote{Irwin to Birkenhead, March 9, 1927, p.40, Reel one, Halifax Papers.}

The Viceroy in the same letter reported that Purshotam had taken his defeat over the ratio to heart and that there was bound to be trouble over the coming issues in the Assembly.\footnote{Ibid., p.41.}

Irwin, unfortunately for himself, was substantially correct. The Bank Bill was not going to be as easy to win as the Currency Bill. Irwin's victory was as much due to Purshotam's short-sightedness as it was to his own
ability to out-maneuvre the opposition. It was Purshotam's strategic failure in not being able to promote the Currency agitation as anything but a sectional demand, that played into the hands of the Viceroy who was ever willing to exploit growing differences. There is little doubt that the ratio agitation was an intense campaign which was remarkably successful considering the technical nature of the entire question. But though the agitation was strong, the harvest was bitter and unfruitful. The impression that the demand for the 1s4d rupee was forwarded in the self-interest of the Bombay mill-owners, did permanent damage to Purshotam's public image. He stuck obstinately to the 12.5 per cent revision which immediately made him suspect in the eyes of many of his friends who were close to Congress.

Purshotam was probably aware that the 1s4d revision was only a marginal difference and that the root of the problem lay in an automatic currency and the inequalities sterling connection. Purshotam's voluminous writings on currency made it quite apparent that he was certainly familiar with the more general ramifications of the rupee problem, but perhaps his efforts to win the ratio were based on the belief that the Government of India would not be prepared to go any further than the 1s4d.
Purshotam's close association with officials of the administration and his numerous European friends must have made him acutely sensitive to the priorities of government. He might quite possibly not have taken a more radical stand on the ratio merely because he feared that the government would have dismissed his position as unreasonable and condemned it as entirely unacceptable. This was certainly not a far-fetched possibility, considering that the Secretary of State and the Viceroy were willing to reverse an Assembly vote if the ratio bill got out of hand, Purshotam's fears were not exaggerated.

Thus, Purshotamdas himself was caught in a difficult dilemma; had the agitation demanded anything more than a 12.5 per cent devaluation, the government

1. Wadia and Joshi in their attack on Purshotamdas sensed that the Legislative effort would only support a marginal revision because of the stubborn unwillingness of government to grant reform. Wadia and Joshi, however, replied saying:

"If Sir Purshotamdas believes in the theoretical soundness of an effective gold standard for India, let him stand forward for it. But government will not give it to us. If we are going to measure our national demands by government willingness and unwillingness, we are disloyal to truth and disloyal also to those general interests of the country which claim expression as the natural will through laws and institution."

The Bombay Chronicle, August 7, 1924. Letter to the Editor entitled 'Sir Purshotamdas' Bill'.
might have quite conceivably ignored the protest before it could get off the ground. But in demanding nothing more than the 1s4d ratio Purshotam was accused of linking with the ratio to appease an unworthy sectional interest at the cost of the working poor and the peasantry.

To some extent it was Purshotam's almost continuous contact with the European community that altered a more uncompromising stand on the rupee. If Thakurdas believed that reform was possible if only certain officials would be made to take a reasonable attitude to the over-valued rupee, then he himself could not afford to be accused of being unreasonable and ungentlemanly.

Political Ambiguity and Interest Groups

In a small but not unsubstantial way, these personal contacts amplified the individual sympathy that political spokesmen felt for certain government officials,1

1. Blackett's cordial relationship with Purshotam is evident from many of his letters. In one, Blackett actually confessed that the India Office regard themselves as principal and Government of India their agents on exchange questions. Such confidences did a lot to preserve the social relationship between officials and members of the commercial community.

Blackett to Purshotamdas, July 28, 1924, p.473, P.T.Mss 47.

See also, Felicitations at the time of sickness, Blackett to Purshotamdas, November 11, 1926, p.67, P.T.Mss 62.
and no doubt the influence worked the other way round. Though it certainly would not be possible to measure the effect of these personal relationships on a national panorama, it does provide interesting insights on a more limited scale specially among groups whose opposition to imperialism was not total and at times ambiguous. The Indian commercial community was especially vulnerable to overtures of important officials in the Indian Government and personal relationships had an important influence on the details of the more volatile issues.¹

Comparably, administrative officials who expressed a genuine sympathy for financial self-government were often victims of the illusions of their own political rhetoric. Blackett was an unusual case: an official

¹. See, for instance, a very frank confession by Purshotamdas himself, in a letter to N.M. Mazumdar in which he says:

"I am one of those who gets along excellently with the European in commerce and industry in spite of my political views. The reason is that I do not carry my politics in my personal relations, but at the same time, I do not allow my personal relations to prejudice my political views."

In Purshotam's cordial contact with the European he is not entirely able to preserve his political views from any influence of his personal relationships. This becomes apparent in 1933-34 over the Reserve Bank Bill.

See, Purshotamdas to N.M. Mazumdar, June 7, 1929, pp.185-209, P.T.Mss 42, Part II.
torn between his duties as a subordinate to the India Office and his incidental belief in a measure of financial self-government. As the Finance Member, he was among the most senior officers of the Indian Government and for some time he was not entirely convinced that the 1s6d ratio was to the greater good of the country.

In his letters to Purshotam he expressed a certain hesitancy and displayed an unwillingness to reach any definite conclusion. This wait and see attitude did not disappear entirely when Birkenhead issued strict instructions to adopt the 18d rupee. Blackett did feel that his position was still uncertain and was unwilling to carry out without question, directives issued at the India Office.

In the Legislative Assembly when the Reserve Bank Bill was motioned for debate, Blackett much to the annoyance of the Secretary of State, conceded more than the India Office intended and later when called to account for his conduct, claimed it was a temporary lapse in his usual diligence. It is difficult to fathom how accurate such excuses were, but what is apparent is that Blackett continued to have a certain sympathy for the native cause and expressed this concern in his
letters to Thakurdas.¹

Thakurdas himself was not unecafted by his
close association with a number of European officials.
His correspondence with Schuster was noticeably warm
and there was a mutual sympathy for each other's
opinion. Even as political convictions hardened there
always remained a polite, social relationship that in
its very cordiality heightened the contrast in Purshotam's

1. This was true of the currency issue and it was
not till 1925 that Blackett had been sternly
instructed by the Secretary of State to enforce
an 18 penny rupee. Blackett's confusion was more
than apparent less than a year before the G.O.I.
had decided on the 18d ratio, when Blackett in a
speech to ASSOCHAM said that the Indian rupee must
not be tied to sterling. It was this confusion
which resulted from being responsible for Indian
Finance, but not being in a position to serve its
interests honestly. Blackett later admitted to
the belief that 1s4d should have been granted even
after his retirement from office during the 1930
depression.

B.F. Madon to Purshotamdas, September 25, 1924,
p.397, P.T.Mss 44.

Blackett also in his evidence to the Hilton-Young
Commission demonstrated that he had a sympathy with
the gold-mohur proposal and persisted in agreeing
with the native demand, much to the irritation of
Birkenhead.

See, Birkenhead to Irwin, June 30, 1927, pp.77-78,
Reel one, Halifax papers.
public life. This personal sympathy tended to blur the sharp hostility that might have developed and, in fact, was responsible for the persistent illusion that the government's attitude to further concessions was entirely at the discretion of its reasonable officials.¹ Thus when the Currency Bill collapsed in the Legislative Assembly, Purshotamdas blamed it on the communal antics of Blackett and did not go as far as to reject the entire corrupt foundation of the British Empire in India. In a letter from Shiavakshaw Romani,

1. When fourteen members of the R.T.C. met at the invitation of Sir Chimanlal Setalvad, all the delegates except Sir Purshotamdas Thakurdas condemned a recent statement of Sir Samuel Hoare, and threatened to withdraw their co-operation from the Constitutional Enquiry. Purshotamdas recommended co-operation saying:

"Are we justified, claiming to represent the commercial community, in abstaining from any invitation that may be made for the purpose of securing our views?"

Purshotamdas was consistent in his plea for co-operation, a dilemma heightened by his belief in the reasonable British official.

The Leader, July 31, 1932, 'Liberals spirited protest, Sir P. Thakurdas' refusal to sign'.

See also, Times of India, July 18, 1932, letter addressed to Editor by 'Commonsense', July 16, 1932.

Also, The Bombay Chronicle, July 16, 1932; 'Hoare deceiving himself'.
Bomani questioned Thakurdas as to why he continued to be anxious to co-operate with the government in spite of the official indifference to his reasoned demands.\footnote{Shiavakshaw Bomani to Nanabhai, July 29, 1929, p. 34, P.T.Mss 85.}

Purshotam saw, perhaps only briefly, the contradiction inherent in the conduct of his public life and remarked:

"If I refuse to co-operate with government, I would have either to give up public life or to join the Congress and belong to the extremist section."\footnote{Purshotamdas to S.R. Bomani, August 24, 1929, p. 35, P.T.Mss 85.}

The dilemma was much more than a unique problem relevant only to Thakurdas. On both sides of the fence, whether in the Administration or as political opponents of government, there were men whose personal sympathies were at odds with their public responsibilities.

In the case of government officials the dilemma was purely personal and had little bearing outside the orbit of their private lives. To spokesmen of the commercial community social familiarity and personal cordiality weakened their political perception.
Manu Subedar was pushed to rebel, while a member of the Central Banking Enquiry Committee, and in a complaint to Purshotamdas, U.K.A. Ayyengar said that this effectively made him forfeit his chances for higher office in government. ¹ Not that higher office was in anyway more important than the over-whelming fact that had government not addressed itself and negotiated reforms with individuals who claimed that they were spokesmen of the commercial community, they would have lost their value as representatives of the commercial interest. The businessmen could not rally behind a political figure whom government refused to deal with, this was the inescapable dilemma of Thakurdas and Birla who represented the commercial interest so uniquely. ²

1. From Ayyengar to Purshotam, January 1, 1931, Letter No.63, P.T.Mss 85.  
Copy of letter from Manu Subedar to Secretary of Indian Central Banking Enquiry Committee, December 12, 1930.  
See, Ayyengar to Purshotamdas, January 5, 1931, marked 'Secret', Letter No.65, P.T.Mss 85.

2. Ibid., January 5, 1931, p.65(1), P.T.Mss 85.  
Subedar, it was reported, believed that any further co-operation with government was useless and that he had made up his mind to join the 'perfect irreconciliables ', by which he meant the Congress Party.
But despite the weakness of the currency agitation, the 1920's was a decade which saw the commercial community make a considerable advance towards recognising the necessity of political action and political organisation.

With the public discussion of such commercial issues as tariff, excise and currency, and the various efforts to organise deputations, write up petitions, form Leagues and Committees, there was a growing self-awareness among the commercial community. No doubt, there were serious differences, regional sympathies and communal pressures, but in spite of the visible tensions, there did exist a business interest. It was not so much at the level of a programme or an ideology that the 'business interest' expressed itself; the larger questions of tariff autonomy, currency control had been articulated ever since the late nineteenth century. It was in terms of an exchange of ideas between important members of the commercial community, an effort at organisation into formal bodies, a co-ordinated opposition to government that
the 1920's was an important decade.¹

In 1928, F.I.C.C.I. came into existence largely at the initiative of Birla and Thakurdas and rapidly became a political forum designed to represent business interests.² Purshotam recognised how important it was to couple a political demand, whose substance was disciplined

1. This became increasingly concrete during the middle and late 1920's when the substance of Purshotam, Birla and Walchand's efforts were of unity and agitation. The Federation under the guidance of these protagonists widened its membership and came to represent the Indian industrial and commercial interest in a substantial way. Birla's influence over Gandhi was catalytic on this regard, but whatever the merits of FICCI's association with Congress, there was an increasingly powerful self-image in regard to the European commercial community and towards the government. In the Assembly, Birla wrote of these efforts at unity saying:

"Provisionally both Motilalji and Malaviyaji have been able to agree that there should be no fight between ourselves over the next election."

Birla offered to raise Rs.40,00,000 to help Congress pay for its all-India campaign for the coming elections. Such support was ample testimony to the progress that such commercial association had made by the late 1920's.

G.L. Birla to Purshotamdas, April 26, 1929, p.247, P.T.Mss 42, Part II.

See also, Purshotamdas' reply in which he is a little more wary of the Congress but is still enthusiastic at G.D. Birla's proposal.

Purshotamdas to G.D. Birla, April 30, 1929, p.243, P.T.Mss 42, Part II.

2. G.D. Birla to Thakurdas, April 30, 1929, P.T.Mss 42, Part II.

Birla considered FICCI a labour of love and worked for its success with great devotion. This was also true of Purshotam through they did not always agree with each other.
mobilisation of public opinion and an economic interest whose concern was only commercial profit. In his first speeches to the Federation in January 1929 as its President, Purshotam, the master tactician behind the currency league with over a decade of experience in public life, talked of the binding link between politics and economics. The response was immediate from both Indian businessmen and the official community, some of whom recognised how important a part the Federation was bound to play in any dialogue between government and the business community. H.T. Lindsay, an officer who had been tipped for the post of Trade Commissioner, wrote congratulating Purshotamdas on his speech hoping that he would have enough time between when his steamer berthed in Bombay and his official train left for Delhi to have a chat and get acquainted.1 Campbell Rhodes, Sir Stanley Reed, Vishveshwarya, G.D. Birla, Walchand Hirachand and a host of important public figures wrote congratulating Thakurdas. One particular letter said about Purshotam's speech that:

"Nothing like this has ever been publicly spoken on behalf of the commercial community and your originality has relieved the business world from political dread."2

1. H.T. Lindsay to Purshotamdas, February 27, 1929, P.T.Mss 78.

2. Letter from Rameshwar to Purshotam, January 1, 1929, P.T.Mss 78.
Clearly, businessmen had come to understand the need for a strong and effective lobby in support of their interest.¹

With the formation of FICCI, petitions and organisations in support of commercial demands were no longer left to the initiative of one or two influential spokesmen. The benefits of a formal organisation were based on the use of consensus and collective action replaced the earlier efforts to win reform.

¹ There were important differences in the interpretation of that interest. In 1929, a short article in the 'Daily Mail' about Moscow boast of its influence over the Bombay labour strike, provoked Sir Dorabji Tata to write very strongly to Purshotamdas. He suggested that the newly formed FICCI be used to combat this poisonous evil. G.D. Birla reacted against Dorabji's suggestion saying that it could never be the lot of a rich man's organisation like FICCI to speak against what many felt was a genuine misery of the toiling masses. Birla criticised the Bombay commercial community for their unsympathetic attitude towards labour and the needless measures that had precipitated the 1929 working class agitation. His censorship over their attitude towards labour was strong and he believed that FICCI was an organisation that carried little weight with the masses or the working class and was:

"a purely capitalistic organisation is the last body to put an effective fight against communism."

G.D. Birla to Purshotamdas, July 30, 1929, p.973, P.T.Mss 42, Part V.
The Federation was altogether a more efficient channel to petition government and differences of opinion which were more visible during the currency agitation were subsumed and resolved within FICCI. Purshotam and Birla continued to play a critical part in the affairs of the young Federation, though their efforts were now complimented by the co-operation of a number of important spokesmen and leading commercial figures whose status grew as Presidents or members of the Federation.

In spite of the more efficient organisation of the commercial community and in spite of the repeated appeal for monetary reform, especially after the 1930's, the government refused to compromise on the ratio. Anything but a marginal revision was unacceptable to the India Office and the City of London, but even this marginal revision was rejected by the Government of India as it disturbed their budgetary disbursements. The Government of India had very serious revenue problems, and the concern over additional budgetary deficits of 15 to 16 crores that a revision to 1s4d would entail, was not surprising. There never really was any question of compromising on the Rupee-Sterling ratio, and till 1939 the 18d rupee stood unshaken.
Towards Financial Swaraj

But in other areas of financial swaraj, concessions were won. The tariff petitions on protective duties and industrial bounties were not ignored and the tariff commissions of 1932, 1934 and the Special Tariff Board in 1936 did force government to protect indigenous industry. Whether these efforts were catalysed by the formation of FICCI, it is hard to say, but the pressure that this commercial body kept up for tariff reforms, was relentless.¹

¹ The systematic effort made by FICCI, and other business groups especially after Ottawa, during the negotiations towards an Indo-British Trade Agreement finally concluded in 1939, was given extensive coverage in the newspapers all over the country.


However, in 1926, it was certainly apparent that Lancashire cotton interests were more successful in influencing Fiscal and Tariff policy of the Government of India than any Indian outcry for exclusive patronage of the home market.¹

Numerous petitions were forwarded by Lancashire Trade Association to the India Office, complaining about the depressed position of Lancashire, which had not been as bad as at any time between the American Civil War and the Great War of 1914.² Untold suffering had been


   See also, Secretary of State to Viceroy, October 14, 1926, Note attached on the position in the cotton industry and under-employment in cotton industry, pp.109-10, loc. cit. op.cit.

2. The Lancashire M.Ps were very busy trying to convince the Board of Trade that Indian Industry was over-protected, and that the only solution to the enormous problem of unemployment in Lancashire was to maintain Trade 'quid pro quo' and guarantee a market for cotton goods in India. The Lancashire lobby pleaded:

"We have in turn subsidized sugar, agriculture shipping, and now coal is being considered (i.e. British Industry) whilst cotton, our greatest export trade, still seems to be viewed by the Board of Trade with the jaundiced eye of an unforging step-mother. Yet a moment's clear reflection will show how a prosperous cotton trade would go far to mitigate the evils which the other subsidies are intended to avoid."

See, Amrita Bazaar Patrika, January 30, 1937, 'India and Lancashire', also, 'India and Trade Negotiations'.

Also, Times, May 25, 1938, 'No unilateral Gestures in Trade Matters', and 'Mr. Stanley on Failure of Cotton Talks'.

inflicted on those unemployed and the condition in the weaving industry, because of the indifferent momentum of trade was disheartening.  

There was little doubt that the English cotton lobbies had the ear of the Secretary of State, who recognised that the real menace was the larger Japanese imports against which some permanent solution had to be found. It was such pressures brought to bear on Indian officials that made the progress towards tariff legislations a slow and tedious process.

Millowners' delegations could bring from the Viceroy only the promise of a Tariff Commission. The removal of the excise duty to help Bombay mills recover from the damaging influences of poor trade, was repeatedly side-stepped.

The Government of India defended the excise duty on revenue grounds alone, but it was quite apparent that the newly appointed Tariff Commission while protecting Indian industry would give Lancashire more than a reasonable consideration of their proposals.

The 1927 Tariff Commission submitted its recommendations and predictably the main thrust was aimed against Japan.  

1. Secretary of State to Viceroy, October 14, 1926, op. cit.

2. Secretary of State to Viceroy, October 8, 1927, p.104, Peel one, Halifax Collection. See also, Secretary of State to Viceroy, October 14, 1926, p.105, 106, Ibid.
differential duties against Japanese imports and while retaining the most important suggestion of the Lancashire Trade delegations, specific concessions to Indian industry were meagre and half-hearted.

However, this early bias in Lancashire's favour did not survive very long with the depression and the steep drop in the ability of Indian millowners to challenge Japanese competition, the Government of India were forced to concede some measures of tariff autonomy.¹

(A) The Indian millowners were suffering from reduced profits and had become a very vocal group in the demand for tariff reform.

1. This measure of autonomy was the principal reason why the Indian Chambers were able to take a very tough stand in their negotiations with the Lancashire delegation in 1936, which eventually failed. The Indian unofficial advisors (composed of prominent members from Chambers of Commerce all over India concerned about the cotton trade) refused a bargain that would guarantee to double the decreasing market for British cotton goods in exchange for a promise from the British Textile Industry to increase its consumption of Indian raw cotton.

The Civil Disobedience Movement in 1930-31 had made it imperative that some measure of self-government be conceded and tariff autonomy that was prominently put forward by the now powerful commercial body, FICCI, could not be ignored.

However, the Japanese imports which troubled both Lancashire and indigenous industry could not be entirely excluded for the simple reason that its purchases of raw cotton were very large. The Japanese threatened to reduce their large purchases of Indian cotton if they were not allowed to export finished goods to the Indian market. The Indian millowners were disturbed to some extent because reduced Japanese purchases would lower the price of raw cotton, reduce the cultivators' normal profits and thus shrink his ability to buy the products of Indian textile industry.

1. In an article on the operation of the Indo-Japanese Trade Pact, N.R. Sarker wrote:

"The potential scope for an increase in the internal consumption of cotton, even on the assumption of a complete cessation of imports, should thus appear to be very limited as compared with the total volume of our exportable surplus. It is difficult to visualise a stage at which India will be able to absorb, the entire cotton produced in the country.... It is evident that a considerable proportion of India's cotton production must need be exported abroad. The fundamental problem that has to be faced in this connection therefore is: how far India can afford to surrender a portion of her internal market to the imports of Japanese Cotton piecegoods...."

...contd./-
Official administrators were also unwilling to consider a large drop in India's export earnings. Clearly, though Japanese imports had to be controlled, there was no way of cutting the Japanese out of the Indian market altogether.

Not surprisingly, the re-negotiation of the Reserve Bank Bill was also undertaken with greater gravity after the Civil Disobedience Movement. Financial Swaraj could no longer be treated with the scant respect that Birkenhead almost got away with. Before the 1930's the India Office suggested a tame emasculated bank that Indian spokesmen were not willing to accept.

The 1927 Bank Bill encountered official indifference and often out-right refusal to consider substantial financial reform. The Bank Bill far more than the Currency Bill, was a more damaging attempt at wresting financial control, and monetary initiative from the Government of India. Birkenhead was convinced that he was not going to (Footnote contd...)

Indian Finance, July 15, 1936, article by Nalini Ranjan Sarkar, 'The Operation of the Indo-Japanese Trade Pact'.

Times of India, January 14, 1937, 'Lancashire's Trade with India'.

Indian Finance, May 21, 1938, Editorial entitled 'India and Lancashire'. 
hand over any such responsibility to a colonial Legislature. The Legislative opposition was equally convinced that they must seize political initiative or deny the government their co-operation entirely.

To say the least 1927 was a difficult year for Irwin.

**The Reserve Bank Bill**

By early 1927, the currency bill having been passed by a small majority, the Government of India turned to the Reserve Bank Bill with the confidence that it could be passed as the currency bill had been won in the Assembly. The confidence was pre-mature, strong political passions had been aroused over the defeat of the Currency Bill and with the formation of the Federation, the commercial community had acquired a renewed confidence in regard to Assembly politics. The Bank Bill itself was an issue that had a fundamental bearing on financial self-government. If national control would be guaranteed over the credit policy of the new Bank, its stability and establishment would be considered an unalloyed advantage. It was for this reason that the Bank Bill was a much stronger plea than the Currency Bill and it was less likely to be defeated as ignominously in the Assembly.
Tactical differences arose as usual between Birkenhead and Irwin, but there was little disagreement in their belief that the Indian interest must be denied out-right control.

The Secretary of State's impression was that the controversy over the formation of a Central Bank was bound to ferment over two issues around which differences were already beginning to arise between the national opposition and the Government of India. The issues were:

(A) Whether the gold mohur as a standard coin of India would be an undesirable addition to the currency system that was already based on a gold exchange standard.1


There was going to be little argument over this issue specially when the Secretary of State wrote:

"There will be no gold currency, nor anything leading to a gold currency within any time that can be foreseen."

The demand for a full-fledged gold currency standard was short circuited by the Hilton-Young Commission by suggesting that gold be used to settle external trade payments, but that gold need not be used to settle internal transactions.

"The essence of the proposal which we proceed to develop is that the ordinary medium of circulation in India should remain at present, the currency note and the silver rupee, and that the stability of the currency in terms of gold should be secured by making the currency directly convertible into gold for all purposes, but that gold should not circulate as money. It must not circulate at first and it need not circulate ever.

(B) Whether the kind of bank recommended by the Royal Commission with the principle of management by stock-holders of the bank was really acceptable to the Government of India. 1

The debate over the gold mohur was one where practical difficulties dominated a consideration of the problem. 2 The enormous quantities of gold required for the gold currency standard was estimated at one hundred

1. The GOI had a good deal of trouble over this issue. See, Irwin to Birkenhead, August 31, 1927, p.183, Reel one, Halifax Papers.

"The Bill is in the Assembly today and I anticipate that the main lines of a compromise will emerge, namely, such a Directorate of a non-shareholders Bank as we can accept omitting Legislatures as electors or members."

In an aside, Irwin wrote:
"I have just heard that we have been rather heavily beaten on the second point, i.e. the share-holders' scheme."

2. Journals and Newspapers published from the British Isles emphasised how the huge demand for gold for a Gold Currency Standard in India would severely disturb world prices and generate a crash in silver prices.

"The scheme had also the objection of throwing a great demand upon the supplies of gold in the world at a time when so many Western countries are struggling to return to the use of gold."

Stock Exchange Gazette (London), August 6, 1926, article entitled 'Indian Currency Report'.

See also, Irish Times (Dublin), August 4, 1926, 'Stabilising the Rupee'.

The Scotsman (Edinburgh), August 4, 1926, 'Indian Currency'.

Manchester Guardian (Manchester), August 4, 1926, 'Indian Currency Reform'.

Times (London), August 4, 1926, 'Fixing the Rupee'.

Financial News (London), August 5, 1926, 'India & Gold'.

Home and Colonial Mail (London), August 5, 1926 and August 12, 1926, 'Indian Currency Report'.

Manchester Guardian (Manchester), August 20, 1926, 'India and the Gold Problem'.


crores of rupees, that could perhaps be paid for by the sale of silver. Despite the major administrative difficulties involved in the movement of such huge quantities of specie, this was not the most important reason for the refusal to give India gold mint.

Had a gold currency standard become a reality in India, the enormous reserves of gold in the gold standard reserves held in part in the vaults of the Bank of England would have to be shifted to India for purposes of coinage of the 'mohur'.\(^1\) The Secretary of State was reluctant to part with India's gold reserves because they functioned

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1. With the release of the Report of the Royal Commission on Indian Currency and Finance, the 'City' expressed its approval of the 1s6d rupee based on a gold bullion standard. On the other hand, there was more criticism of the proposal to establish a new Reserve Bank, as the city was not entirely convinced that it was a full proof scheme to ensure executive control over the Bank.

"Different sections of the 'city' agreed in welcoming the decision to establish a gold bullion standard with specific safeguards against an undue demand for gold for other than monetary reasons."

The scheme was approved because it was likely to stabilise the rupee permanently to satisfy Indian sentiment and to spare the rest of the world a voracious demand for gold of a nature to upset its delicate credit structure.

Financial News (London), August 5, 1926, 'Indian Currency Report'.

Financial News, (London), August 9, 1926.

The Statist, August 21, 1926.
as metallic backing for large investments in British Government securities and stock bonds in English industry. ¹ This highly compromising use of India's currency reserves handicapped any plan to physically shift the reserve to India to be coined as a monetary token.²

Additionally, had Indian currency been in substance the gold token, this would have made the rupee, what economists term as an automatic standard. The automatic standard was a monetary device by which an imbalance in trade payments was automatically adjusted.

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¹ The Secretary of State, Birkenhead was adamantly opposed to the coining of the gold mohur or giving India a gold currency system.

See, letter Birkenhead to Irwin, June 30, 1927, pp.77-78, Reel one, Halifax Papers.

Irwin's reply to Birkenhead, August 31, 1927, p.182, Reel one, Halifax Papers.

² This fear of depleted gold reserves in the world was very strong. In an article in the 'New York Times', March 25, 1927, the correspondent had traced a rumour that claimed that large purchases of gold were being made by the Indian Government. The correspondent went on to say that as the Gold Standard was more widely adopted, reserves would become more eagerly sought after, creating a monetary imbalance unless the Bank of England could see some way in preserving its stocks of the metal.
by the import or export of the gold token upon which a nation's currency was based. Hence, government interference in trade payments would have been cut to a minimum and the entire system of Council and Reverse Council Bills would not carry the sting of official manipulation as it then did.

It was for these reasons that the Secretary of State was advised by the Bank of England not to allow the gold mohur, an apparently harm-less demand for a gold currency token.

1. What worried Indian officials was that if the currency was made automatic by basing the rupee on a gold token, then the quantities demanded would be immeasurably large because of the Indian peoples' primitive habit of hoarding precious metal. Almost all the foreign dailys reflected this anxiety about India's bottomless demand for gold.

Birmingham Post (Birmingham), August 4, 1926, 'Hoarding the obstacle to progress'.

Home and Colonial Mail (London), August 5, 1926, 'The Indian Currency Commission - recommendations in brief', and 'Indian Currency Report'.

Irish Times (Dublin), August 6, 1926, 'India's Money Problems'.

The Times Imperial and Foreign Trade and Engineering Supplement (London), August 7, 1926, 'Trade and Indian Currency'.

Economist (London), August 7, 1926, 'Indian Currency Report'.

Chamber of Commerce Journal (London), August 13, 1926, 'Indian Currency - Hoarding by Natives'.

The Bank Bill was an altogether more untidy proposition. The constitution of the Bank had become a controversial principle and early in the Bank Bill tussel there was a certain hesitation in the Secretary of State's directives to the Viceroy. It had not yet become clear whether the demand for a State Bank should be considered on grounds of cost or on the political priorities that such an arrangement implied.¹

1. Considerations of cost were also a part of the reasons for the initial Legislation in granting a Reserve Bank. It was admitted in 1933 when the Reserve Bank came up once again for deliberation that currency Reserves would have to be strengthened to the tune of £30,000,000 sterling a major part of which would have to be borrowed abroad, p.37, P.T.Mss.134.

Birkenhead to Irwin, February 16, 1926, p.25, Reel two, Halifax Papers.

"Schuster will, I think, be more impressed than Blackett was with the question of cost, seeing that with the recent loss of gold assets, a big sterling loan would so far as one can see, have to be floated before the bank could be started."

See also, Secretary of State to Viceroy, July 1927, p.78, Reel one, Halifax Papers.

"I was assisted by Strakosch in a preliminary discussion on the subject but only after I have referred to Hilton-Young and seek his advice will I be able to decide whether political considerations should be weighed against purely financial objectives."
Strategic priorities apart it was the more immediate political causes that camouflaged growing areas of discord. The confidence of the Government of India after their currency triumph, dulled Birkenhead's normal caution in his approach to the Legislature. Blackett who was in-charge of the Currency Bill in the Assembly believed that he could delete both the clauses that the Secretary of State found such objection to. In his evaluation of the Assembly vote his assessment of the strength of the nominated members led him to assure the Viceroy that he would carry the Bill through without the shareholders' representation clause or the gold mohur demand. By August 1927, less than a month later Blackett was not as optimistic of a favourable vote in the Assembly. The reasons were obvious.

Predictably, trouble had started to brew among the Legislative opposition over the constitution of the Bank. Tempers ran so high that the opposition to the Bank Bill was far more unanimous and adamant than had been occasioned during Purshotam's fight for the Currency Bill. As the contest sharpened, the controversy crystallised.
Indian spokesmen on the Joint Select Committee had rejected the shareholders' plan and the issue became a straight battle between the 'native' interest and the Government of India for control, through safeguards in the constitution of the Bank.¹ Strenuous efforts were made by proponents of the State Bank to defeat the official proposal for a shareholders' Bank and the entire debate became the single most symbolic issue in the question of financial self-government. The proposal itself was not as sharply defined as to have justified the antagonisms that developed over the two schemes.²

1. The GOI in a despatch on constitutional reform in 1930 made it clear that they attached great weight to a closer co-operation between central banks within the Empire in association with the Bank of England. In India, the despatch claimed:

"Whatever the future for India may be, she must always be greatly dependent upon her standing in the London money market, and nothing could be of greater service in this direction than a close co-operation between a central Bank for India and the Bank of England."


2. The real issue was not so much the constitution of the Bank as it was the guarantee of legislative control over the exchange and credit operations of the New Bank. The Statist accurately reported:

"To the Indian politicians it appeared to be an attempt to secure the control of central Banking in India for non-Indian interests. These quarters therefore pressed for a central Bank which to some extent would be subject to the influence of the Legislative Assembly. They wished this influence to be real and not illusory, as in the case of the present relations between the Legislative and executive Govt.

The Statist, 'International Banking Section' November 17, 1928, p.738.
A Legislative member from Ambala humorously interjected during the Bank Bill debate in the Assembly saying:

"Our position is simply this. If the Finance Member had brought forth a State Bank scheme, all of us would have shouted for a shareholders' Bank."

The statement was greeted with shouts of laughter and many would have agreed that the accusation had a good deal of truth in it. What, however, lay behind the two schemes was the 'native' plea that the Bank should regulate the expansion or contraction of credit strictly in regard to the varying needs of trade and commerce: political influence and manipulation of currency had to be prevented altogether, if any semblence of financial swaraj was to be achieved.

Birkenhead, however, had made it clear many months earlier in a letter to Irwin that he was not prepared to allow the Imperial Bank to hand over its

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"I quite realise the political advantages of concession and the difficulties of the GOI. But I do not think we can afford to allow any question so delicate and intricate as currency to be determined by political considerations."
currency control to a Reserve Bank. He categorically stated that:

"... India cannot afford to sacrifice the I.B.I's commercial activities and that those activities are hopelessly incompatible with the proper performance of Central Banking functions."  

This allusion to 'commercial activities' was a scarcely disguised reference to currency management, contraction, expansion and the finance of the annual crop movement, that the Imperial Bank considered as one of its most vital functions. It was this supervisory control over the circulation of money, cardinal to the entire working of the rupee-sterling exchange, that Birkenhead sought to deny the New Bank. The Reserve Bank, which Birkenhead envisaged was a carefully harnessed Central Bank, over which the Governor-General's powers of veto could control any measure designed to upset the precarious exchange equilibrium.

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1. Irwin was forced to agree with this. Irwin at this stage was willing to compromise, but changed his mind in the face of stern instructions from the Secretary of State.
   Irwin to Birkenhead, September 7, 1927, p.187, Reel one, Halifax Papers.

2. The Secretary of State to Viceroy, April-December 1927, Reel one, p.74, Halifax Papers.
As the vote in the Assembly grew more immediate, it became more and more important to Birkenhead not to allow the Bank Bill to be governed by political considerations on behalf of the 'native interest'. Nevertheless, the opposition in the Assembly was determined not to allow the Bill to pass if all the Bank proposal meant was an emasculated Central Bank with no promise of a gold currency standard.

Birkenhead chided Irwin and remarked that the Government of India's sympathy with the Indian interest was the principal reason for the considerable trouble that the Government had to contend with over the Reserve Bank Legislation. The Secretary of State was quite willing to withdraw the Bill if difficulties in the Assembly grew unmanageable. Neither the gold mohur nor the State Bank was acceptable and Irwin was instructed to allow no compromise on these issues.


The Secretary of State felt that the GOI should have made it clear that there was no need for a gold currency. He said:

"... and if the representatives (of the GOI) had dotted the i's and crossed the t's of everything in the Royal Commission's report, the difficulties would not have been so acute."
In September 1927, the Bill was introduced by Basil Blackett in the Legislative Assembly and the clamour for an Indian controlled Bank grew strong enough to have made Blackett concede, what in the Secretary of State's opinion was too much. The political pressures on Blackett must have been considerable as the only way he could get a favourable vote was to permit an alteration in the allocation of electoral boards in the constitution of the proposed Bank.¹

¹ Some of official confusion was because Irwin had interpreted Birkenhead a little too liberally, believing that the Secretary of State would accept the revision of electoral boards. Though the revision would guarantee majority Indian representation, this could then have been broken up into geographical registers that would have prevented the domination of commercial interests on the board of the Bank. A solution acceptable to Irwin but to Birkenhead this was close to heresy.

Blackett himself had in his correspondence with leading Indian spokesmen not been unwilling to recognise that financial self-government was an issue where genuine concessions must be considered. His performance in the Assembly was in a small measure due to this sympathy that was coupled to a resentment against the Indian Office's constant interference in matters that the GOI could best judge and act upon. Nevertheless, the consequence of what Birkenhead described as Blackett's inefficiency made him a victim of the Secretary of State's wrath.

Birkenhead to Irwin, p.108, August 22, 1927.

"I can hardly believe that a man of so acute a mind and such wide experience could have been so ignorant of what was perfectly obvious and it seems clear that he was determined to secure the Bill at any cost. His attempt... to prove that electoral boards were not only objectionable but desirable, destroys one's confidence in his judgement."
The Secretary of State ordered the Viceroy to withdraw the Reserve Bank Bill, even though it had cost the Government of India considerable embarrassment of having to abandon the position that had been granted by the Finance Member. The Secretary of State was quite willing to pay the price of censorship in the Assembly rather than concede a bank over which he had little control.¹

¹ Birkenhead to Irwin, August 18, 1927, p.105, Reel one, Halifax Papers.

Secretary of State displayed an unwillingness to allow the question of currency to be conceded to or influenced by Indian political opinion. "I would rather have no Bank than a bad Bank."

Birkenhead took pains in making his displeasure felt. In a curt letter to Irwin, he remarked that the Viceroy's scheme was the laughing stock of the irreverent in the City. Montagu Norman, when sounded, was amazed that a Bank that would occupy an important position in the London money market, besides holding assets of the GOI and Indian Banking, should be under the Directorate of a Board so constituted. It was lamentable, continued the Secretary of State that a difference of opinion existed between the India Office and the GOI, a difference that would, no doubt, have aroused evil passions. The easiest decision, advised the Secretary of State, was to put the Bill in cold storage and when the time came to re-introduce the Bill, the Viceroy was instructed to make it clear that the electoral procedure had to be revised before the shareholder scheme could be allowed.
The Secretary of State was unequivocal, and explained very clearly to Irwin that the Indian Office intended to hold to pure gospel—a shareholders' Bank, with no political influence direct or indirect and no guarantee of a gold mohur.1

"In India wants a Bank on these terms it can have it. If not, it must do without it as long as I am Secretary of State."2

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1. The GOI could not entirely understand the harsh criticism that Blackett's Assembly debacle had invited. Though genuinely apologetic over the Finance Members performance in the Assembly, Irwin declared that the withdrawal of the Bill was a mis-calculation. Had the Bill been allowed to stand vote, Indian interests would have been satisfied at the GOI's efforts to co-operate with the Assembly. The Viceroy believed that the withdrawal of the Bill had given Congress reasonable grounds for complaining that it was the government who refused to be amenable, and if carefully exploited, this complaint would harvest bitter criticism that would be difficult to manage. The central bone of contention was indeed the stock-holders scheme, which the Viceroy felt was an eminently reasonable plan. The scheme did not go beyond what the Viceroy believed was the spirit of what was earlier agreed upon by himself and the India Office. In a detailed reply, Irwin defended the position that the GOI had taken on the Bank Bill. The scheme need not have been abandoned because:

i) It was necessary to secure the passage of the Bill.

ii) It was done subject to the understanding that the Board must be subject to Government control.

iii) The Bank should be answerable to the Legislature in its major responsibilities.

Irwin insisted that the election to the shareholders' board through an allotment of local constituencies did not carry as much emphasis as Birkenhead now claimed it did.

Irwin to Birkenhead, September 15, 1927, op.cit.

"I cannot understand why the scheme should, according to a telegram that I received from Hertzell (permanent Under Secretary of State), have excited the alarm or the division of the City."

2. Viceroy to the Secretary of State, September 22, 1927, Birkenhead Papers.

See also, Birkenhead to Viceroy, September 22, 1927.
Birkenhead's Orthodoxy

The disagreements were typical of the quarrels that marred any unanimity between the India Office and the Secretary of State. The relationship in these years often bordered on complete exasperation at Birkenhead's fanatic orthodoxy.

The unrestrained conservatism of Birkenhead was not so surprising considering that the sympathy for 'home rule' had been crippled by British political neglect. The India Lobby inside the Labour Party and the Liberal Party had been out-maneuvered by career bureaucrats like Oliver and Birkenhead who believed in the strict supervision of recalcitrant colonial Legislatures.¹ Whatever little accord there had been in Ramsay MacDonald's Labour Cabinet was isolated and individual attempts by Sir Josiah Wedgwood and Sir Charles Trevelyan failed to induce MacDonald to

¹ See, Parthasarthy Gupta, Imperialism and the British Labour Movement, pp.102-07.
control the more conservative instincts of the India Office.¹ McDonald's indifference was largely responsible for making the labour Government's attitude to home rule one of casual disregard.

Once Stanley Baldwin returned to power in 1924, Birkenhead's hatred of Indian nationalism could only have been encouraged by the conservative government which installed him as Secretary of State. The real failure lay in the weakness of any influential group in British politics to modify the Imperial attitude to colonial self-government.²

1. In a scathing article, Harold Laski believed that Samuel Hoare's tenure at the India Office had changed the atmosphere of co-operation that Wedgewood Benn had made possible with Irwin. The hope of a great Indian settlement had receded faced with men who represented the Tory tradition who all believed that the well-being of England depended upon its being governed by Elton and Oxford. During the 1st R.T.C. Laski said of Sam Hoare:

"He does not talk the same language as Mr Sastri or, Sir Tej Bahadur Sapru, let alone Mr Gandhi, even when he utters the agreed formulae. Their minds are on the substance of power, his is on the safeguards."

The Daily Herald, December 5, 1931, 'Sir Samuel Hoare, Prisoner of a Mid-Victorian World'.

2. Irwin's difficulties with Birkenhead were a direct outcome of Birkenhead's unquestioned responsibility over the management and regulation of Indian affairs. The little influence that Ramsay MacDonald could have exercised in restraining Birkenhead was lost entirely when McDonald permitted Birkenhead to appoint an all British statutory Commission under the Chairmanship of John Simon. Within his own labour party, Graham Pole's efforts to bring the labour leadership close to moderate Indian national opinion were ignored and the small chance of a political initiative against the Conservative Government's Colonial Policy...

.../contd.
In India, Irwin anticipated political aggravations and complained that Birkenhead's distrust of the Indian leaders had made his task that much more difficult.  

Reintroduction of the Bank Bill

In the Assembly the Reserve Bank Bill stood withdrawn. To re-introduce the Bill might have been difficult and the Viceroy in his report on the Assembly warned of such figures as Patel and Malaviya whose object was simply to wreck the entire Bill. Irwin advised against any further delay in introducing the Bill as the disadvantages were bound to grow if the Bill was prolonged and left unacted upon.

(Footnote contd...) withered and finally collapsed. And with it any hope of an amicable settlement with Indian national opinion which multiplied the general resentment that the GOI had to face.

Perthasarthy Gupta, op.cit, p.104.

1. Ibid., p.105.
2. Ibid., p.111.
3. Viceroy to the Secretary of State, September 15, 1927, Birkenhead Papers.
   See also, Viceroy to the Secretary of State, October 9, 1927, Halifax Papers.
4. Secretary of State did not entirely agree with the re-introduction of the Bank Bill, but left it to the final decision of the Viceroy as long as he knew he was dealing with a 'reasonable' Assembly.
Indeed, the Viceroy's intuition was accurate. In early 1928, when the Secretary of State instructed Blackett to re-introduce the Bill, Vithalbhai Patel exploited the cumbersome procedural formalities of the Assembly to stall the Bank Bill.\(^1\) He objected to its re-introduction and, in fact, objected to its withdrawal saying:

"That government could not proceed with the new Reserve Bank Bill without (calling a vote) introducing the old or allowing it to lapse."

To withdraw the old bill, a vote would have had to be called that could frustrate the official initiative in the Assembly. The Viceroy finally decided to proceed with the old Bill by amending it if not in the Legislative Assembly than in the Council of State.\(^2\)

But this was not to be: Vithalbhai Patel was able to draw up enough support in the Assembly to act against the Bills' Clause No.8, which crippled its

\(^{1}\) Irwin to Birkenhead, February 2, 1928, pp.12-14, Reel two, Halifax Papers.

\(^{2}\) Irwin to Birkenhead, February 2, 1928, p.13 Reel two, Halifax Papers.
passage and the entire motion had to be abandoned. 1
The Viceroy felt that if that 'wily, crafty, old man'
Patel was determined to obstruct the Bill, so much
the better now than at a later date on a more
controversial issue like that of the gold mohur. 2
The Viceroy washed his hands off the arduous matter
with some disgust, saying:

"As far as I am concerned, I should not
propose to move again in this matter of
giving India financial swaraj, till she,
through her politicians ask for it." 3

1. Birkenhead to Irwin, February 22, 1928, p.27,
Ibid., Halifax Papers.

Vithalbhai Patel won this ruling when a draw
on the vote rejecting the Bill was converted
into a motion against the government when Patel
was able to convince a member to vote with the
opposition. The Secretary of State was not pleased.

"I shall be interested to see what you have
to say about his (Patel's) second and
apparently much more bare-faced exploit when
he converted a tie in the voting on an
amendment of the old Bill into a defeat of
government by taking an additional vote after
the count had been made. This seems so far
as my present knowledge shows to have been
most high-handed conduct."

2. Irwin to Birkenhead, February 9, 1928, p.19,
Reel one, Halifax Papers.

3. Ibid., pp.19-20.
Intervening Years: The Round Table Conference

As the Civil Disobedience Movement spread into a nationwide agitation, it became clear to the Viceroy that the Congress, after its Karachi session was in no mood for co-operation with the government.\(^1\) The Congress refused to call a halt to the Disobedience Campaign and the offer to settle demands at a Round Table Conference in London was spurned on grounds that there would be no collaboration or compromise till India was promised the right to self-determination.\(^2\)

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1. Though the mood of the country was to reject the R.T.C. offer of negotiation till amnesty to all political prisoners, among other things had been granted.

See, *The Free Press of India*, January 20, 1931, 'MacDonald's Swaraj is Gilded Slavery' and 'Amnesty if Congress will sell its Soul'. Also, *Bombay Chronicle*, January 21, 1931, 'Is it not Pre-mature'.

However, there were a number of newspapers which reflected a certain satisfaction with Ramsay MacDonald's statement that His Majesty's Government had accepted the principle of responsible Government with transitional safeguards.

The Hindu, The Madras Mail, Justice, South Indian newspapers all hoped that this determination would result in greater progress of the negotiation.

2. This is roughly what the capitalists organised in FICCI wanted. They refused to accept the invitation to attend the Round Table Conference unless India was promised dominion status and commercial interests granted concessions on important issues.

Telegram to Amritlal Ojha, July 19, 1930 from Purshotamdas, p.831, P.T.Mss 42/II, VIII.
The refusal of Congress to co-operate multiplied the anxiety with which the Viceroy regarded the London Conference. No serious negotiations could ever be undertaken without the premier political party of India. Even Rainy and Schuster, who were sent to the Conference, because the Viceroy felt that finance and commerce would be critical issues, told Halifax that the Conference might not reach a successful conclusion. Both Rainy

1. In July 1932, it was an open secret that G.D. Birla had been trying during the last seven months to negotiate with Samuel Hoare in regard to the proposed safeguards. His scheme was that in the absence of Congress, six experts from India - he and five other nominees, including Purshotamdas Thakurdas, should negotiate on the question of safeguards with a similar committee from the India Office. The Times of India wrote:

"Now, who gave Mr. Birla the authority to speak on behalf of India? The suggestion that only traders, businessmen and financiers, can decide the question of safeguards, cannot be accepted by the Indian public. Surely, Birla and Purshotamdas however eminent their position, cannot have any authority to speak on behalf of India."

Purshotamdas in a subsequent issue said that there was no alternative except to negotiate with Gandhi.

Times of India, July 16, 1932, 'Support for Sam Hoare'.

See, Anrita Bazaar Patrika, July 20, 1932.

Advance, July 20, 1932

Liberty, July 20, 1932, reporting G.D. Birla's views on FICCI and the Round Table Conference.

Schuster argued that some degree of autonomy had to be promised to the 'native' demand for Indian management in finance and commerce and privately confided to the Viceroy that even if Benn was amenable to reform the Simon Report had influenced conservative politicians such as Lloyd George and Stanley Baldwin to deny Indian participation in its own affairs. The Simon Commission's review of the working of the Montagu-Chelmsford constitution was conservative and did not go as far what even the most moderate Indian spokesmen considered essential. Wedgwood Benn, in fact, disliked Simon and believed that his participation in the R.T.C. would disturb the pace of negotiations.

1. Ibid., pp.58-59.

2. See, Major Graham Pole to Purshotamdas, August 1, 1930, F.T.Mss

"The Secretary of State has had a tremendous fight during the past two or three weeks against the combined Liberals and Conservatives who were determined to have Sir John Simon as member of the Round Table Conference in a special capacity which would have led to his practically dominating the Conference."

However, it was clear that it was some members of the Liberal Party and some members of the Conservative Party had insisted on Simon's presence there was no unanimous decision on the issue. Pole felt that government could, without too much trouble, carry the vote against Simon, which in fact it did. By August 1932, the moslems threatened to boycott the R.T.C., followed by the FICCI whose President Jamel Mohammed Saib instructed Purshotamdas not to sail for London.

...contd./-
When Stanley Baldwin pressed strongly for a representation of the opposition parties, in addition to the official delegation to the R.T.C., Benn in consultation with the Viceroy granted the request. However, the Secretary of State went to considerable trouble to make it clear that he was anxious to avoid the presence of Simon and Lloyd George.¹ In a letter to

(Footnote contd...)

Gandhi claimed that his differences with the Bombay Government prevented him from attending which prompted Malaviya and Sarojini Naidu from rejecting the official invitation. The real reason was in part because the conservative die-hards who had returned to power in 1931 had hardened the attitude of Parliament and the British Government to India.

"The change was felt when Mr. Benn was replaced by Sir Samuel Hoare and the proceedings of the Conference came to be dominated by the sole anxiety to transfer the control of affairs from St. James Palace to Westminster."

Advance, July 20, 1932; Daily Express, August 12, 1932, 'Triple Threat to R.T.C.'; see also, Daily Telegraph, August 13, 1932, 'Round Table Omens'.


"But with Simon out of it (R.T.C.) and Lloyd George a possible non-starter, we may yet get a decent team."

Even after the Gandhi-Irwin Pact in 1932 and the co-operative attitude of the Indian minorities, the Conservative Government in power in 1932 spoiled the success of the Conference. Samuel Hoare and the Tories had revived Birkenhead.

The Times, August 6, 1932, 'New Delegation from India'.
Irwin, Benn wrote that he had considerable confidence that Baldwin would not press for their inclusion.¹

In India, though the Congress had refused to participate in the Round Table negotiations, the official team at the Conference was watched with a certain anxiety, more so because there was a general feeling among the commercial community that in matters of finance and commerce there was an obvious dictation from Whitehall.

¹. There was an important body of public opinion in England which supported the Tory reluctance to negotiate genuine reform at the Round Table Conference. The plea was strengthened by the belief that without firm control over India, the British Commonwealth of Nations would fall to pieces. The Daily Mail reported that:

"Economically, commercially, politically, and geographically, it (India) is our greatest Imperial asset. To imperil our hold on it would be the worst treason any Briton could commit."

The Daily Mail which claimed to be in touch with the public opinion of the country asked that:

"Mr. Ramsay MacDonald should cease trying to reconcile the quarrelling sects of India, dissolve the preposterous R.T.C., and continue in India that firm and beneficent British rule under which she has reacted greater peace and prosperity in the past two centuries than she ever knew before."

The Daily Mail, November 31, 1931, 'End the Preposterous India Conference.'
Purshotamdas warned Schuster that there were certain quarters here in Bombay who got information fed by leakages at the India Office much earlier than many realised.¹ Most of such information went to strengthen the impression that there was an undeniable dictation from Whitehall. An accusation that was particularly damaging to those at the India Office who had to suffer the heritage of Birkenhead and Sam Hoare. As early as 1926, in March of that year, Madon wrote to Thakurdas saying that it would have been of interest to call for any correspondence that may have passed between the Secretary of State and the Government of India on the question of ratio and went on to identify the exact dates between April 1 and September 30, 1924 that this correspondence might have taken place.² Madon was unerringly correct and though


"In a big administrative department like the Government of India and the India Office, I can understand a certain amount of leakage of information. But certain quarters here in Bombay get information about finance and currency matters from London much earlier than many can realise."

This gave the impression that there was an unmistakable dictation from Whitehall.

his accusation was only a strong suspicion, its accuracy was almost uncanny. He wrote to Thakurdas, saying:

"I strongly suspect a change of policy from 16-18d occurred at this stage and probably at the instance of the India Office, and led to the failure of the two bills."¹

By 1929, the suspicion became a strong probability and in Birla's extensive correspondence with Purshotam, he expresses a strong resentment against the pre-emptory orders from Whitehall and that:

"... even in such modest matters Whitehall does not fail to poke its nose. This is most intolerable."²

The issue was Thakurdas' nomination and later rejection as the Chairman of the Central Banking Enquiry Committee. Birla was so angered that the Government of India was carried by the whim and fancy of the India Office that he emphatically concluded that swaraj was the only answer.³

¹. Ibid., p.66, P.T.Mss 58.
². G.D. Birla to Purshotamdas, June 11, 1929, Letter No.21, P.T.Mss 85.
³. Ibid., Letter No.21(a), P.T.Mss 85.
By 1931, the belief that the Government of India was controlled by Whitehall could barely be concealed. Strakosch was unable to answer Birla's accusation that the compulsory link between the rupee and the sterling had made the maintenance of the ratio, a policy engineered by priorities forced upon the Government of India by the India Office.

**Developments in England**

Wedgewood Benn was particularly sensitive to the industrialists' charge and much of the resentment that he felt against the old guard in the conservative party was quite simply because that India could not be managed without some measure of self-government.¹

The differences between Birkenhead and Wedgewood Benn were not much more than a difference in their personal empathy with home rule for India. The anxiously heralded triumph of the Labour Party quickly turned into a note of exasperation and the great rift in the Imperial perspective that the first Labour Government ought to have championed never really took place. The promise of a greater sympathy for India,

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¹ Wedgewood Benn to Irwin, February 27, 1930, pp.41-45, Reel two, Halifax Papers.
a greater sensitivity of its poverty and a more intimate relationship with its spokesmen turned out to be the ideals of a few in the Labour Cabinet.

Nevertheless, the individual sympathy for reform, however fractured, was not unimportant. \(^1\) Wedgwood Benn, if nothing else introduced a more candid relationship with Viceroy Irwin and was often much ahead of the Government of India in their consideration of the national opposition. Benn, as a member of the Labour Cabinet disliked the cantankerous politicians of the Conservative Party. \(^2\) Benn called the

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Major Pole, a member of Parliament in his letter rejected the Simon Report and hoped that the Round Table Conference would be conducted in the genuine spirit of negotiation. Pole endeavoured to convince Purshotam that to attend the R.T.C. was the only way that such concessions could be won. This attitude was very close to that of the Secretary of State Wedgwood Benn and showed that the Simon Report had created a disagreement between Liberal and Conservatives.

See, Purshotam's reply, July 9, 1930, he believed that till repression was halted, the Conference could not be a success. pp.119-29, P.T.Mss 99.

2. Wedgwood Benn in November 1929, participated in a debate in the House of Commons as the Secretary of State for India, pillori;ed Lord Birkenhead saying that the R.T.C. would be a more acceptable proposition because:

"We have got rid of the Birkenhead tone, and also, as the people of India do not always understand exactly what values are in this country, I will just remark... that Lord Birkenhead occupies no official position whatever in the Government of this country and I understand that he desires to be regarded as completely detached from British politics."

...contd./-
senior conservative politician 'old stagers' and wished Stanley Baldwin all the best on his fight against them.¹

Irwin's constant wrangling with Birkenhead was a consequence of this difference in imperial vision and Wedgewood Benn went a considerable way in accepting Irwin's understanding of Indian politics. In a letter to the Viceroy, he wrote:

"I agree entirely with you that neither the attitude of mind nor the language of the Great War is appropriate in dealing wisely with a national movement which, in its best aspect, we desire to see succeed."²

(Footnote contd...)
Towards India, Benn envisioned Government as a benign arbitrator helping the native cause to achieve self-government without entirely consuming itself. As early as 1927, he said:

"We have also, I think, constantly to emphasise the fact that we are doing no more than preserving for a self-governing India, a legacy of public order. As to Congress trailing its coat tails, the best thing to do, if possible to refuse to tread on it.... I repeat that we have got somehow to represent ourselves in the role of neutral protectors of order and not in the role of anti-Congress champions."

1. This was the general feeling in the Labour Party who agreed with Baldwins declaration on November 7, 1929 that dominion status for India was the final ambition of British rule.

"Can there be any doubt whatever in any quarter of the House that the position of India with full responsible government in the Empire when attained... must be one of equality with other States in the Empire."

Much was made of the contrast drawn between Baldwin's declaration in 1929, and Lord Birkenhead's belief that:

"... there was no period of time humanly foreseeable when India might safely be given dominion status."

Daily Telegraph, November 2, 1929 (among the other Conservative Newspapers were the Daily Mail, and the Morning Post).


The difference between Birkenhead and Wedgewood were sharply defined perhaps as strikingly as the differences that the Ilbert Bill touched off between Ripon and Lytton in the late 19th century.¹

In India, the Civil Disobedience Movement by September 1930 had grown to what the Viceroy felt unmanageable proportions. The extraordinary powers that had been undertaken by the Government of India to cure the widespread lawlessness had come under strict attack by a fairly sizeable section of public opinion in England.² Wedgewood complained that the talk of

1. The contrast is consistent except that in 1875 imperialism was in full bloom.

2. However, the commercial community was ambivalent in their attitude to the Civil Disobedience Movement. Purshotam, in what can be described as a fairly typical letter said that Civil Disobedience had a fault in that it taught the people the extremely dangerous lesson of violence. Beyond this the commercial community was for the boycott of foreign goods, but their anxiety to settle the issue at a Conference was already expressed and accepted at the Second R.T.C. The usual division within the community divided them on Civil Disobedience as well; with G.D. Birla and Ambalal Sarabhai close to Congress, Purshotam and Shri Ram vacillating between co-operation with Congress and a plea for separate identity, and Ibrahim Rahimtulla, Gowasji Jehangir and Dorabji Tata on the extreme right, Rahimtulla and his friends did not desire a great deal more than concessions that would benefit their local interests.

For Purshotamdas, see, Purshotamdas Thakurdas to Ambalal, November 18, 1930, p.753, P.T.Mss 42/VII.

For G.D. Birla and his position in regard to C.D.M. to Gandhi and Congress, see, Birla to Purshotamdas, August 3, 1934, p.567, P.T.Mss 42/VI.
police atrocities had more than once embarrassed him both in Parliament as well as at the hands of the Press and the Labour Government had lost a good deal of liberal sympathy as a direct result of this vituperous campaign.¹ Benn admitted privately to Irwin that the public censure that the Government suffered from over the extraordinary Ordinances passed by the Indian Government was the Congress Party's strongest weapon against imperial rule. Ironically, Irwin found Benn unwilling to extend the Government of India's police powers and his concern of the number of prisoners, the severity of their sentences and their treatment in jail, prodded Irwin into complaining that there was a good deal of difference in the way the orientals considered a show of force.²

1. Purshotamdas' weekly letters to a Liberal M.P. in the House of Commons repeatedly emphasised the brutal repression that was unleashed on the movement. Graham Pole sympathised with Purshotam's viewpoint and it must surely be such contacts that must have inspired protests in the House of Commons and as Wedgwood Benn complains, embarrassed Government.


2. Wedgwood Benn to Irwin, August 28, 1930, p.194, Reel three, Halifax Papers.

See also, Wedgwood Benn to Irwin, September 19, 1930, Reel three, Halifax Papers.
Ironically, in the early and middle twenties, Irwin was asking Birkenhead for a greater sympathy for the national cause, by 1930 it was the Secretary of State, Wedgewood who thought it best to discourage Irwin from using excessive coercive pressure against the Civil Disobedience Movement. In a letter to the Viceroy, he said:

"I really do regret differing from you about the Bengal Act, but I beg you to make allowances for the very strong prejudice which must exist from the Western point of view against detention without trial." 1

Benn advised Irwin again and again that Congress' most troublesome strategy was in attracting public sympathy that His Majesty's Government and the Labour Party could not afford to ignore. 2 The Congress by creating an atmosphere of resentment secured a

1. Wedgewood Benn to Irwin, August 28, 1930, p.194, Reel three, Halifax Papers.

2. This was exactly Purshotam's complaint that unless repression is stopped the movement will grow uncontrollable and out of bounds.

"Such repression will only aggravate existing dis-affection against Government. I strongly solicit revision of this policy."

This was in response to a police order in Sholapur prohibiting Khadi caps from being worn and eventually resulted in the arrest of 18 Congress workers. Purshotam to Irwin, Telegram, May 14, 1938, P.T.Mss 99/II.
growing support among all classes and creeds in India. Benn saw that the Civil Disobedience campaign was a movement that voluntarily foreswore material force and was in character very different to the revolt that England faced in both South Africa and Ireland. In Benn's own words:

"They depend, therefore, on creating a state of mind in the world and among British opinion to achieve their purpose. That is to say they are deliberately attempting to present us with the alternative of using what they will represent to be unjustifiable and tyrannical repression." 1

Benn believed that if Congress was aiming at using public sympathy against the Labour Government, then the only way to prevent Congress from winning the war was to abandon the naked use of force.

Irwin himself was not in a comfortable position and complained that he would, if his troubles continued, have to sue for peace. To span the breach between the Government of India and Congress, Benn recruited Sir Horace Alexander to

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1. Wedgewood Benn to Irwin, November 24, 1930, p.205, Reel three, Halifax Papers.

See also, Benn to Irwin, February 3, 1931, p.343, Reel three, Halifax Papers.
mediate between the two and advise upon what issues should a future conference be called to negotiate upon. Horace Alexander tipped Schuster to seek out contact with half a dozen chosen spokesmen of the Indian political opposition and the issues that Schuster felt were crucial to any agreement between Government and Indian parties. These were:

1) Salt tax, picketing, temperence, amnesty to prisoners;
2) Non-payment of revenue, cancellation of rural debt;
3) The rupee ratio and the tariff question - an important concession to the Bombay millowners;
4) Military expenditure.

Gandhi's prominence in the Civil Disobedience campaign and his command over Congress made him the natural political figure to which government addressed all negotiations. To some extent, this was unfortunate, because without the precision and practical approach of Jawaharlal Nehru and Thakurdas to the problem of finance and commerce, a lot more attention was devoted to the problem of temperence, liquor tax, prosecution of prisoners and picketing than important commercial
issues such as tariff. Much to the disgust of Thakurdas, finance and currency were almost entirely ignored.\footnote{1} Purshotam, through a great admirer of Gandhi, could not come to accept Gandhi's obscuratist motion on financial organisation and industrial progress; 

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1. By June 1931 with the more serious effects of the depression that had brought India's external trade almost to a complete halt, the GOI made it quite clear to the Secretary of State and 'Banking and City Circles' that a stage had been reached when the rupee could no longer be supported at 18d by the GOI with their present resources. The weakness of the GOI on the London money market was all too apparent by the failure of a sterling loan, and for a time exchange reform was seriously considered; in fact, the Free Press Journal reported that the British Government had implied that it:

"would lend money to the GOI if necessary for the purposes of maintaining the rupee exchange at 18 pence."

The object of this undertaking it was further stated was to give India an earnestness of the British Government's intention to carry through a sane and sensible programme of reform in accordance with the R.T.C. proposals. However, when the export of gold began to take place in increasing quantities by October 1931 the entire complexion of financial responsibility changed. No longer did the promise of Financial Swaraj include substantial monetary reform.

Free Press Journal, June 27, 1931, 'Propping up the Wrong Ratio'.

The Premier Ramsay MacDonald assured the GOI of help in a debate in the House of Commons on June 26, 1931.
increasingly Thakurdas was pushed into a more intimate correspondence with Irwin in whom he found a friendly sympathy. This association tended to soften Purshotam's strident language on the Reserve Bank Bill and by February 1931, Purshotam had largely agreed to a Reserve Bank minus political interference. A word of caution: Purshotam in voicing a demand for a Reserve Bank without political interference was arguing for a restriction of government influence in the management of currency. His plea though couched in not as harsh political rhetoric as he was wont to use on issues such as the Currency Bill, was still clearly a strong plea for an independent Bank.¹

Evolving Attitude Towards Currency

The currency debate was to many a complex and never ending discussion; was the ryot more important than trade and manufacture, or was it a deficit budget that had to be most feared? What in any case was this elusive 'natural ratio', that Purshotam believed was

¹ FICCI, September 13, 1933, Resolution on the Reserve Bank:

"That while the proposals have in general attempted to safeguard the Reserve Bank against political influences within the country, they subject the Reserve Bank in actual operation to political influences emanating from the Secretary of State and expressing themselves through the Governor-General."
the 16d rupee? Did benefit to the ryot come before any benefit to trade or were all these arguments a clever use that disguised personal profit and official advantage. Most of this confusion was because the 16d rupee was only marginally better or marginally worse than its great rival, the 18d rupee, depending on which way one was forced to look at it. Far more relevant to the entire issue were the monetary links between the Pound-Sterling and the Rupee, a question that Purshotam ignored almost entirely in this anxiety to carry the 1s4d rupee in the Assembly. In fact, it was the mandatory rupee-sterling relationship that was more basic and more crucial to the entire debate than the 12.5 per cent difference between the two rupees.¹

¹ Samuel Hoare, Secretary of State, 1st Viscount Templewood, on the rupee immediately after sterling had gone off the gold standard, wrote that:

"Indian trade is financed through sterling. The greater part of India's external obligation is in terms of sterling. To follow gold and so to increase the sterling value of the rupee at this juncture is... out of question. The GOI will accordingly continue the policy under which stability in terms of sterling has in the past been secured."

October 1, 1931, p.22, P.T.Mss 111.

Birla disagreed at the R.T.C. meeting, October 6, 1931, pp.14-16, P.T.Mss 113. He said:

"What we most strongly resent is being linked to sterling. What is the advantage? Either we should link the rupee with commodities or eventually with gold, but certainly not with sterling."
As a result of this forced relationship the rupee was tied to the pound and depending on the positive or negative balance of trade, there was an unavoidable deflationary or contrari-wise inflationary pressure on the rupee. During the inter-war period it so happened that there was never enough sterling released to justify the 1s6d rupee, and the consequence was a strong deflationary money policy and scarce currency. Purshotamdas, in attacking the over-valued rupee alone, failed to point out the status of the rupee in relation to the pound, and was vulnerable to the charge of considering only the interests of the Bombay businessmen.

It was only after the stock market crash and the delinking of the pound from gold in September 1931, that spokesmen of the industrial community were made aware that the root of the problem was this compulsory association that disturbed the monetary balance of the rupee. In October of the same year a conference was held between a few selected officials of the India Office and the Indian leaders to discuss the currency problem.\(^1\) It

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1. Second Round Table Conference; Report on the proceedings at a meeting at the India Office for the discussion of financial questions. October 18, 1931, Chaired by the Secretary of State, Sam Hoare, P.T.Mss 113.
was apparent that the Indian leaders, especially Thakurdas and G.D. Birla, had re-worked their approach to the currency problem and that there now existed a more analytical understanding of the entire question.\(^1\) G.D. Birla posed the unequal relationship between the rupee and sterling, described it as monetarily damaging and illustrated the consequences of the over-valued rupee.\(^2\) The general depreciation of the world's currencies especially the Yen emphasised the artificial value of the rupee. As a debtor country trade balances in her favour actually decreased the reserves of gold and to cure such ills, Birla suggested that the rupee be delinked from sterling and allowed to find its own

   See also, a draft prepared after the first series of meetings in which Purshotam argues for (i) gold standard, (ii) delinking rupee and pound, (iii) free floating rupee; p.74, P.T.Mss 111.
   Also, "Sketch Plan of the Consequences in the event of the rupee exchange value declining to the natural level", p.252, P.T.Mss 111.


level even if this meant that the exchange value would have fallen to only 9 pence to the rupee.¹

In many ways, this was the heart of the problem and what is more important is that not only did it tie up with the more general demand for a Reserve Bank, but that it was acceptable to Gandhi who believed that the only interest worth acknowledging in the entire debate was that of the peasants.² Having identified

1. Birla's suggestion was, of course, far too radical. Not only was the Secretary of State not going to divorce the rupee from sterling he was also not about to allow devaluation to 1s4d was demanded by Purshotamdas. The Secretary of State, on September 21, 1931, (the day sterling went off gold) informed the Federal Structure Sub-Committee in London that for all practical purposes the rupee would be maintained on a sterling basis. He was satisfied that this was the right course for India and was most conducive to Indian interests (by which he meant that Indian Trade was financed through sterling and that her external debts were measured in sterling).

Proceedings of the Federal Structure Committee, Indian Round Table Conference (second session), 9132, p.77.

2. 'Consequences of the Free Rupee', sent to Henry Strakosch by Mahatma Gandhi, October 23, 1931, p.478, P.T.Mss 111.
the dependent relationship of the rupee with sterling, Birla went on to recommend an automatic gold standard and a Central Bank with supervisory control over currency. These were radical demands, but if some solution was not found to tackle the very low prices of gold that the distressed peasant was forced to accept Gandhi could not foresee anything but turmoil and social upheaval. Birla's part in the Conference can be described as nothing short of brilliant. Not only was he able to present the currency problem in such a manner that Gandhi could bring his weighty influence to bear on the demand, he was also well armed against the usual official arguments. He neatly

At one point Birla sarcastically stated:
"The Secretary of State said India was linked to sterling, but (by the ordinance of) the GOI have not ever linked the rupee to sterling, they have simply stopped the exchange going below 1s6d."

Birla, in fact, advocated a 9p rupee.

2. Ibid, p.470. See also, p.25, P.T.Mss 113, Gandhi said:
"You refer to the possibility of riots, I can promise you a condition of riots in India in an incredibly short time, if the prices of foodstuffs continue as low as they are at present."
side-stepped the controversial issue of exchange and prices by claiming that it was an endless debate and concentrated his attack on the question of the rupee-sterling connection. This was a shrewd tactical move, because it immediately placed in perspective the root of the problem and the argument lost none of its force in vague technical debate. Where Purshotamdas had fallen short of achieving unanimity on the ratio question, Birla had made it possible to promote that question as for the national good. A fundamental revision of the inequitous monetary link between sterling and the rupee, could hardly stand accused of being a rich man's demand.

The Bank Bill II

By 1932, with the rapid devaluation of the whole world's currencies and the increasing severity of the world-wide depression, the entire complexion of the rupee problem changed. The exchange ratio was, if anything, a far more serious problem, and with the question of the financial relationship between England and India under negotiation at the Round Table Conference, the Reserve Bank issue acquired added importance.

The discussion of the Bank Bill, when it had been first introduced by Basil Blackett, had centred around the issue whether the government would consider
a shareholders' bank or a State Bank in framing the
constitution of the proposed institution. 1 Blackett
was not prepared to sacrifice the shareholders' scheme
but he pointed out to Purshotam that he would help to
secure a more equitable general character of the Bank
by inserting provisions that would modify the original
proposal. 2 Purshotam was entirely unconvinced and

1. The State Bank Vs. Shareholders' Bank was taken
up by numerous chambers of commerce, the Federation
and the European commercial bodies. The result was
an outpouring of opinions in the Press. See,
'Statesman', May 8, 1927, which represents the
view of the Indian Chamber of Commerce and the
Bengal Chamber of Commerce.

2. Blackett to Purshotamdas, August 3, 1927, p.36,
P.T.Mss 61.
Sir Basil Blackett, therefore, announced on the
31st August 1927, that the Government would give up
the shareholders' scheme if a satisfactory substitute
could be found. Mr. Srinivasa Iyengar's proposal to
replace the shareholders as electors by a system of
electoral colleges made some appeal to Sir Basil
Blackett who stated that the GOI were willing to
accept it in principle provided their acceptance
would result in the emergence of a Bill acceptable
both to them and to the great majority of the House.
And so came in to being the 'stock-holders scheme',
according to which the Reserve Bank was to be a
State Bank with all its capital owned by the GOI.

Om Prakash Gupta, 'Central Banking in India
1773-1934', p.135.

See also, Legislative Assembly Debates, Vol.V,
September 13, 1927, pp.4244, 4277-92.
Legislative Assembly Debates, Vol.I, February 1,
1928, pp.62-77.
Ibid., Vol.I, February 6, and 8, 1928, pp.127-66
and 172-13 respectively.
wrote to Blackett of the general feeling that the shareholders' scheme was not really an attempt at an honest compromise.¹

"Let me put it quite frankly that the responsibility of the Directorate to the shareholders is bound to be nominal and worth nothing."

Blackett grew more firm and threatened to withdraw the Bill if the Joint Select Committee, which was at that time deliberating on the Bill, voted in favour of a State Bank.² The Legislative issue in 1927 grew too controversial for the Government to allow the Bank Bill's normal passage into law and after it was withdrawn, the only real option that supporters of the Bill had was in the words of Lal Harkishan Lal to educate and unite Indian opinion as the essential

1. Letter to Basil Blackett, August 9, 1927, p.37, P.T.Mss 61, on the Shareholders' Bank.

"With a shareholders' Bank there is the risk of a shareholder bent on mischief, worrying the executive from year to year and I am convinced that such a risk should be avoided."

2. Indian National Herald, May 31, 1927, p.6, Joint Select Committee decided that Reserve Bank should be a State Bank. The newspaper printed in bold type 'Finance Member Angry, wires to Simla, threatens to withdraw Bill'.

See also, Irwin to Birkenhead, July 16, 1927, p.134, Neil one, Halifax Papers.
changes that would have to be made in the Reserve Bank Bill before it could be acceptable to the country.¹

"Either amend the Bill or end it", said Harkishan Lal in a Press statement in Bombay.²

The depression intervened and when the Bill next came up for consideration, the original proposal had been amended, but in 1933, it was perhaps less acceptable than Blackett's effort of 1927. J.B. Taylor suggested a reformulation of Blackett's Central Bank but insisted on safeguards.³ It was in these 'safeguards'

3. Newspapers such as the Bombay Chronicle were suspicious of this talk of financial safeguards, and boldly declared:

"No Reserve Bank before we have acquired full financial control, should be our only and definite answer."

The reason the Bombay Chronicle was not far to seek, if India gave in on the question of safeguards:

"... the reason why Britain is in a hurry to have a Reserve Bank in this country (is because) Britain wants an Empire currency and the (only) difficulty which was in the way is solved now as the only Dominion in the Empire, I mean the British South Africa, is off gold yesterday. Britain wants regulated currency in the Empire. That is, all the currencies in the Empire will be pegged to the pound-sterling. We have the Ottawa Pact, we are now going to have the 'sterling area' Pact. In the 'sterling area' Pact, India will always have to be dragged along in the Empire as well as in the rest of the world under the domain of sterling. Is India prepared for this?

...contd./-
that the nature of the 'official' proposal was so clearly illustrated.\textsuperscript{1} Taylor believed that a dual authority should be introduced between the permanent authority and the shareholders and the ill-conceived vagaries of the Legislative Assembly.\textsuperscript{2} At the time when the old Bank Bill had failed in the Assembly and had to be withdrawn Indian interests had wanted to weaken the power of the executive. By a State Bank the

(Footnote contd...)

Ottawa and the safeguards will not cost as much to India as the linking of rupee with pound sterling which in off the gold.... Remember for sterling debts and vested interests we will have safeguards forced upon us...."

The Bombay Chronicle, January 2, 1933, p.8, 'Federation and Reserve Bank'.

See also, October 22, 1933, p.1, 'More Retrograde than the Present Constitution'.

1. The following extract from the Economist of August 27, 1927, from its Calcutta correspondent shows that European opinion was insistent on safeguards. To them no political control meant an exclusion of native influence on the Board of the Bank.

"... in view of the nature of the functions to be allotted to the Central Bank and the constitutional position of the GOI as an irremovable executive confronting an irresponsible Legislature, political control of the Bank would be equivalent to the establishment of a dual executive."

\textit{Economist}, August 27, 1927, 'The Reserve Bank Bill'.

the opposition within and without the Assembly emphatically had not meant a Bank, the Directorate of which was wholly nominated by the government; but a very different thing.¹ The Joint Select Committee's proposal for a State Bank implied an executive that was either directly or indirectly elected by the Legislative or by electoral colleges based on a Legislative franchise. The obvious aim being to concentrate as much power as possible in opposition to the government.²

1. Ibid., Paras 5-6.

2. The controversy carried into the Press in 1932 and 1933 over whether a State Bank or shareholders' Bank was the most meaningful in the Indian context.

Hindustan Times, October 30, 1933, 'A State Bank, not a Reserve Bank wanted', and was followed by an exposure of the pending Bill.

Pioneer, September 21, 1933, p.14, 'Finance Member Challenged'.

Statesman, September 20, 1933, 'Purshotamdas Thakurdas Reply on Reserve Bank Note'.

Times of India, September 24, 1933, 'Sir Purshotamdas Thakurdas on the Reserve Bank'.
Indeed, it was national control of the future Reserve Bank and its monetary responsibilities that Indian political interests were unanimous in demanding. Not all industrialists were entirely convinced that the idea of a State Bank was sound. Nalini Ranjan Sarker and many of the Calcutta spokesmen believed that continuous interference by the Legislature could be damaging and that the shareholder scheme was a better idea. Needless to say Sarkar added that it was national control which was the most vital issue in regard to the capital structure of the Bank and its general organisation. However, the weakness of the native demand, and the chief reason why government was able to push through an emasculated proposal was because though national control was unquestioned the

1. Memorandum of the Federation of Indian Chambers on the Reserve Bank Bill which said:

"That while they would prefer a State Bank, a shareholders' Bank may be acceptable, provided complete national control is assured and not less than 75 per cent of the paid-up capital at any time is reserved to natural-born Indians."

P.T.Mss 145.
guarantees to ensure this control was never exactly formulated. As a result, though the principles on which the Bank should function were widely discussed only a few perceptive critics condemned the electoral procedure that was the rock upon which the scheme was built.

1. The Reserve Bank Bill, a criticism by Nalini Ranjan Sarkar, p.122, P.T.Mss 145.

Throughout the official negotiations (and the official exploration) of the Reserve Bank proposal the two most inflammatory controversies were never adequately dealt with.

i) Whether the Bank was to be a State Bank or a shareholders' Bank.

ii) What was to be the composition of its directorate.

In fact, the I.C.B.E. Committee agreed to proceed on only the following assumptions:

i) The Reserve Bank was to be established by an Act of the Indian Legislature.

ii) The capital of the Bank was to be provided by the State.

iii) The Bank was to be under Indian control.

iv) The Bank was to be free from interference from executive or Legislature in its day-to-day administration.

At the Round Table Conferences there is little doubt that the Federal Structure and Financial Safeguards Committees recorded the need to establish a Reserve Bank, but all that was achieved was reduced to the assurance that the Bank would be based on sound financial foundations and was to be free from any political influences in England or India.


Also, Proceedings of the First Round Table Conference, 1931, Para 18, p.215,263,280,282 & 506.

Proceedings of the Indian Round Table Conference (Third session) 1932, pp.36-39,40,78-79,197-203.
The Secretary of State in consultation with Indian officials had decided\(^1\) that there would be a Directorate constituted by eight shareholders elected from local boards from five geographical sub-divisions in India.\(^2\) The seats were divided as follows: two in Bombay, two in Calcutta, two in Delhi, and one each for Burma and Madras. Of the four

1. A Committee was set up to report on the Indian Reserve Bank Legislation. The Committee was said to have comprised authorities on Banking practise from both India and England, members of the Indian Legislature, the business community and moderate spokesmen of the premier political parties of the sub-continent. This was in response to the declaration made by the Financial Safeguards Committee of the Third Round Table Conference which recommended:

"... that steps should be taken to introduce into the Indian Legislature a Reserve Bank Bill, that would be the result of a meaningful consultation with representative Indian opinion...."

Proceedings of the Indian Round Table Conference (Third session) 1932, pp.37-38.

Also History of the Reserve Bank of India 1935-51, (R.B.I.), p.82, for members of the London Committee.

2. Report of the Committee on Indian Reserve Bank Legislation. Confidential Memorandum circulated to the delegates of the Joint Committee on Indian constitutional reforms.


The report was issued as a Whitepaper.
remaining Directors, the Government felt that in view of the particular circumstances of India, (as election may fail to secure the representation of some important elements in the economic life of the country, such as agricultural interests), the minority of the Board would be nominated by the Governor-General in Council.¹

Though majority representation had been ensured for Directors of Indian origin, the scheme conceded very little of substance to Indian commercial interests. The election of Directors from Madras, Rangoon and Delhi was bound to be a contest effectively manipulated by government; elected directors in collaboration with the maximum of four nominated members of the Board could quite effectively block any proposal made by the Bombay and Calcutta Directors. If, indeed, the commercial community could get the nominees of two cities, Bombay and Calcutta to agree on one and every issue, there would still be only a ghost of chance to push through any effective legislation. Additionally, in the final proposal, there was no justification as to why Directors nominated from Madras, Rangoon and

¹. Ibid., p.6, P.T.Mss 134, p.57.
Delhi registers, should have been allowed to hold office for four years, as against two years for the Directors nominated from the Bombay and Calcutta registers. Unless, of course, the provisions were drafted to ensure that government had absolute control over the board for a stipulated period of four years, even after which there was a very good chance that any radical reform would be squashed without too much trouble.

1. Reserve Bank Bill, a published criticism by N.R. Sarkar, President of FICCI, p.117; P.T.Mss 145.

2. The Reserve Bank of India Bill was introduced in the Legislature on September 8, 1933. A motion to refer the Bill to a Joint Committee of the Central Legislature was adopted by the Assembly on September 13, 1933. The Committee which sat to review the matters that the London Committee had recommended handed in its report on the November 16, 1933, and after an extensive debate on the Bill and its clauses it was adopted by the Assembly on November 30, 1933.


   The motion to take the Bill as passed by the Legislative Assembly, into consideration was moved in the Council of State on February 13, 1934 and was adopted on February 16, 1934.

What is so surprising is not that the proposals were formulated, but that they were passed into the new Reserve Bank Bill without an effective opposition. Birla complained of a certain despair when he considered the Legislative vote on the Bank Bill. Members of the Assembly lulled into accepting the Reserve Bank by what some members considered a genuine effort to meet the Indian demand. The government had quelled the initial storm over the constitution of the Directorate by promising a larger and more extended Board consisting of 24 members. But this compromise solution was quickly withdrawn on the excuse that the Board would have been an unwieldy unit. Privately, Taylor confided to the Finance Member Schuster that the proposal was withdrawn because:

1. The Secretary of State, Samuel Hoare promised at the Third R.T.C. that the Bank would have and be subject to Indian control. However, the undertaking was ignored, and Thakurdas' minute of dissent (recorded by the Report of a Committee appointed to enquire into 'The Reserve Bank Legislation') complained that in the Directorate of the Bank, there could be only two alternatives:

"... either a shareholders' Bank completely free from political influence on both sides of the seas; or a State Bank directly subject to the control of the Federal Bank, relying on the undertaking given by the Secretary of State at the Third R.T.C."

The undertaking was ignored.

...contd./-
"Representations of Chamber of Commerce and other 'fancy' constituencies would be scrapped. #1

Taylor felt that the commercial interest could well work through the Legislature instead of interfering with the work of the Bank directly through its chief executive board.

The Bank Bill even in this form did not entirely satisfy the Secretary of State. To delay the final establishment of the Bank, Samuel Hoare felt that it

(Footnote contd...)

The provisions of the 1928 Bill had envisioned a board of 24 members which was struck down by Government as a direct result of the recommendation made by the London Committee which felt that the Board should be as small as practicable and that the majority of Directors should derive their mandate from the share-holders. The London Committee did not consider it necessary that provision should be made for the representation of commercial bodies as such. Further efforts to reduce the number of nominated Directors - partly to provide for representation of agricultural interests and partly to curtail Government's influence on the Board - or to provide specifically for the Governor-General's nomination of Directors to represent particular interests, were either withdrawn or negatived. See, History of the Reserve Bank of India 1935-1951, pp. 38-89.

1. Memorandum on the proposed Reserve Bank for India by Hon'ble J. B. Taylor, p. 25-1, Para 15, 'Directorate'.
was necessary to attach a set of four conditions
only after each was fulfilled could a Central Bank
be seriously considered. The four conditions
were:

1) Budgetary position should be assured and
deficits made necessary by severe and
world-wide depression should no longer be
an annual feature of the budget.

ii) Short-term debt both in London and India
should be substantially reduced.

iii) Adequate reserves to ensure a stable Bank.

iv) Normal export surplus should be restored.

1. Manu Subedar in his minority report warned
of this, he believed it was imperative to
establish the Bank as soon as possible and
distinguish the issue from less critical
questions:

"I may be permitted to emphasise the need
of separating the Reserve Bank question
from other constitutional and financial
questions and of allaying the public
apprehensions that the establishment may be
delayed, even after it has become possible
on financial grounds through other and
extraneous causes."

Indian Central Banking Enquiry Committee
Minority Report, Vol. I, Part II,
Manu Subedar, p.294.
When asked about these four conditions that the Secretary of State had insisted upon before the establishment of the Reserve Bank, no less a person than John Maynard Keynes felt that if a Reserve Bank was desirable only because it could ensure a higher standard of general financial stability, then demanding normal conditions made little sense. The purpose of establishing a Central Bank was to cure monetary imbalance. He said:

"A Reserve Bank which would be less capable than the existing system of turning awkward corners does not seem worthwhile." 2

The whole danger of such apparently scientific conditions that were so vague and indefinable, was that there was a real risk of their being interpreted ultra-conservatively. Provisions that were integrated with the proposal indeed were to make the Bank amenable to the influence of Whitehall through the comprehensive and incompletely defined powers allowed to the

2. Ibid., p.88, P.T.Mss 134.
Governor-General in Council. The unrestrained candour in which the September 1933 issue of Banker made the complacent observation with reference to the appointment of the Board and executive heads of the Reserve Bank was remarkable. It said:

"All this shows that on its foundation at least the Bank will be completely free from Indian political influence."

In spite of this blatant admission there were still those in India, who not only agreed with the four conditions laid down by the Secretary of State, but added a fifth. The Hon'ble Mahmood Sahrawardy,

1. The Banker, September 1933, (London), Monthly, a review of Banker's business.

2. The four conditions were first suggested as early as September 1930 because the GOI felt at that time that the depression had precipitated an exceptionally unfavourable period. During these years the maintenance of the ratio was pursued only with the greatest difficulty and it was only because of the repeated sterling loans undertaken on the backing of the Secretary of State that exchange equilibrium was possible. Without the tacit co-operation of the British Government, the new Bank (if established in troubled times) would find it impossible to maintain the rupee-sterling ratio, and be unable to fulfil its financial responsibilities.

senior elected member of the Council of State from Bengal and the Deputy Leader of Independent Party of the Council believed that currency stability should also be assured, if the Bank Bill was not to be an empty piece of paper. It was this sort of opposition that the Government relied on to push through a measure that was so retrograde in substance as to have meant very little in terms of any real responsibility over financial matters.

Even the recommendation of the Indian Central Banking Enquiry Report, that argued that a Reserve Bank should play a greater role in agricultural finance and credit, was withdrawn. The ostensible reason for the Reserve Bank Committee to have rejected the proposal was that it would unnecessarily hamper the role of regional Banks against whom the superior resources of the Reserve Bank would be unfair competition. The real reason Indian spokesmen claimed was that by regulating the size of the loans that the Bank was allowed to issue, the Bank's resources would be liquid enough to satisfy its other commitments.

1. Star of India, September 1933, p.2, 'That Reserve Bank Idea'.
   The Hon'ble Mehmood Suharawardy issued the statement to the Press.

Neither on the Constitution nor the working schedule of the Bank, was any significant financial responsibility handed over to commercial interests. An elaborate machinery of a Central Bank had indeed come into being, but the so-called safeguards had short circuited any 'radical' interpretation of the Bank's monetary and credit functions. The problem of working capital remained acute, the ratio question was never settled, and in numerous ways commercial interests were ignored on the Directorate of the Bank.

This piece of Financial Swaraj that had been promised with great gravity, was quite neatly dismantled, and official interference resumed uninterrupted. The machinery of the Bank could scarcely be amended so soon after the Bank Bill had passed the Assembly: and any continuing disagreements expressed in confidential Bank Board meetings could certainly not have become token for public debate. Once criticism had submerged, civic censure became next to impossible, and could always have been parried by the official claim that the constitution of the Bank had provided for Indian control. Indeed, the Government continued to argue that their promise of 'Financial Swaraj' had been met, and that the Bank was an equitable solution.
The surrender of financial responsibility was an illusion, a clever make-believe that gave nothing of any real value. Even on the ratio, the small revision to 1s4d rupee, an insubstantial demand considering the world-wide deflationary pressures, was categorically rejected by the Government of India.

The Currency Question II

The ratio was not altogether unconnected to the Reserve Bank Bill. To Purshotamdas the currency issue, which was now more critical with the steep downward spiral in prices, had become a tactical consideration. A number of his associates had convinced Purshotam that unless the rupee ratio was fought for along with the more general agitation for a Reserve Bank, it was going to be extremely difficult to alter the ratio, once the Bank Bill had been passed.¹

Purshotam, in order to force the Government to re-consider its stand on the ratio, recalled the

¹ Osborne Smith to Purshotam, September 9, 1933, P.T.Mss 145.

"Frankly, I think the ratio issue must be raised if the Reserve Bank is instituted on the 1/6 ratio you can say good-bye to any revision."
Currency League into being and renewed his efforts to find a Chairman and an executive committee.\footnote{A.D. Shroff, partner in Batlivala and Karani to Purshotamdas, September 29, 1933, p.94, P.T.Mss 145.}

Public pressure on the Government, Purshotam had learned was a valuable weapon, and it must be used with greater effect if the ratio controversy was to be settled.\footnote{The Indian Chamber of Commerce, Calcutta; The Indian Produce Association, Calcutta; Southern India Skin and Hides Merchant Association, Madras; Buyers and Shippers Chamber, Karachi; Indian Chamber of Commerce, Tulicorin; Indian Merchants Chamber, Bombay; East India Cotton Association, Bombay; Marwadi Chamber of Commerce, Bombay; have passed and forwarded resolutions to the GOI expressing their strong support to the object of the Currency League of India, to oppose the continuation of the 18d ratio as is sought to be done through the Reserve Bank Bill, and to bring about an immediate devaluation of the rupee.}

1. If Shastri, who I have enquired is at present in Coimbatore, is not in a position to accept, we must think of somebody else in order to enable us to put the League into motion before the Joint Select Committee of the Assembly and Council of State enter upon a detailed examination of the Reserve Bank Bill.

2. There is little doubt that the demand for a devalued rupee was vocal, and strongly petitioned for by the commercial community. The Currency League issued the following communique:

"The Indian Chamber of Commerce, Calcutta; The Indian Produce Association, Calcutta; Southern India Skin and Hides Merchant Association, Madras; Buyers and Shippers Chamber, Karachi; Indian Chamber of Commerce, Tulicorin; Indian Merchants Chamber, Bombay; East India Cotton Association, Bombay; Marwadi Chamber of Commerce, Bombay; have passed and forwarded resolutions to the GOI expressing their strong support to the object of the Currency League of India, to oppose the continuation of the 18d ratio as is sought to be done through the Reserve Bank Bill, and to bring about an immediate devaluation of the rupee."

None of the European Chambers supported the League or passed resolutions demanding devaluation.

\textit{Bombay Chronicle}, November 4, 1933, p.5, "Inflated Rupee must be Devalued". 
But, judging by the critical response to Purshotam's appeal, the ratio issue seemed as unsettled in 1933 as it had been in 1926; and though the whole problem of depreciating currencies was far more serious with particular disadvantage to the agriculturist, there was a general feeling that the ratio agitation was a matter of detail and that there ought to be a more determined opposition to the larger question of financial responsibility.\footnote{G.D. Birla to Purshotamdas, October 20, 1933, p.218, P.T.Mss 145.}

Purshotam's request to Sastri to Chair the League for the second time was quite pointedly turned down, as Sastri felt that he had been laughed at by official world and on no account could he resume a responsibility as grave as Thakurdas had suggested.\footnote{Telegram to Purshotam, September 25, 1933, from Secretary of State. Secretary of State to Purshotam, October 4, 1933, P.T.Mss 145. Letter from Sastri to Purshotam, October 4, 1933, p.124. See also, A.D. Shroff Batlivala and Karani to Purshotam, September 29, 1933, p.34, P.T.Mss 145.}

\begin{itemize}
\item \footnote{"I know that in Punjab as well as in Bengal public opinion is strong in favour of depreciated exchange but the country seems to be very much in despair. There is a feeling that whatever you may say is not going to have any effect on Government. People are, therefore, concentrating on wider matters."} G.D. Birla to Purshotamdas, October 20, 1933, p.218, P.T.Mss 145.
\end{itemize}
Sastri's belief that the Government disapproved strongly of the agitation for the 1/6 was not inaccurate. Even Indian opinion was suspicious of the League and the persistent impression that the 1/4 demand was only a difference of degree, led many to accuse the League of being a richman's club. The National Call, a Delhi based newspaper was virulent in its criticism saying:

"We have painfully discovered, however, that the Currency League has a different object. It is one of those bodies, the small caucus of financial magnates in India bring into existence overnight to carry on propaganda in the name of the people for the furtherance of their own selfish ends." 

The 'National Call' went so far as to say that they considered the war between one ratio and another silly, futile and an illogical conflict. This sort of criticism was widespread. Even Birla confided to Purshotam that the 1/4 was a revision that was only marginally important. Birla in the same letter explained that he had been in touch with Gandhi and he-

1. The National Call, Delhi, November 24, 1933, 'The Currency League and the Exchange Problem'. The attack was also directed against G.D. Birla.

2. G.D. Birla to Purshotamdas, October 20, 1933, p.218, P.T.Mss 145.
conveyed quite emphatically that his differences with that "first class fanatic... Jawaharlalji" were far more critical to the commercial interest than the 12.5 per cent difference upon which not many people were united.¹ In spite of these disappointments, Purshotamdas instructed Mathuradas Vissanji that the Currency League had an important duty to the Indian public which had to be educated in the shabby way the Indian monetary system had been treated during the last 13 years.² The ratio was a vital consideration to India's economic well being and to further that well being the League must fight to force Government to review the ratio before the Assembly considered and passed a Reserve Bank Bill. Unless the ratio question

1. Ibid., p.214.


"To consider the question of starting a currency league with a view to carry on propaganda and educate the public with regard to perpetuation of the present ratio of 18d."

Also, Letter to Vissanji, October 13, 1933, p.156, P.T.Mss 145.
got a hearing before the Reserve Bank Bill, the chances of altering the ratio once the Bank Bill had been passed would be close to zero.¹

Purshotam's urgency was not entirely appreciated. Many believed that the Bank Bill was a necessary preliminary to the grant of self-Government to India and to delay the Bill with considerations relevant to the ratio would be harmful to India's interest.²

Purshotamdas' limited success with public opinion among Indian spokesmen was in marked contrast with the response that he received from the Europeans both here in India and in England. Biria wrote

1. E.J. Bunbury to Purshotam, Telegram p.90, P.T.Mss 145.
   "Don't allow Bank Bill Pass without ratio decision."

   Bunbury to Purshotam, Letter September 20, 1933, p.132, Ibid.
   "If the Indian members of the Legislative Assembly allow themselves to be persuaded that the Reserve Bank passage will in no way effect the future consideration of the ratio, then I consider they will be sacrificing a really important economic consideration for a mere shadow of a piece of political machinery."

2. Undecipherable to Purshotam, October 7, 1933, p.146, P.T.Mss 145.
encouragingly that now it was only with Purshotam's European friends that India could get any justice on the ls4d. Purshotam's access to European feeling was through his colleagues in the Imperial Bank, Osborne Smith and E.J. Bunbury.¹ Both Smith and Bunbury substantially contributed to Purshotam's campaign for the lower rupee. Bunbury roundly condemned George Schuster for his tactics of delay in the Assembly and not only assisted Purshotam in his efforts to conciliate the City of London, but also agreed to become the Vice-President of the Currency League.² Smith, the then Governor of the Imperial Bank remained one of Purshotam's most militant backers and even felt at some juncture that Purshotam should encourage the Legislators in Delhi, to threaten Government that they would drop the Reserve Bank Bill

1. Correspondence was extensive and Smith and Bunbury assumed him of their support repeatedly.


"Bunbury is heartily disgusted with Schuster and condemns him in strong language."
unless the ratio question was seriously considered and the 1s4d acted upon.¹

Bunbury did valuable work for Purshotam in recruiting through his contacts in England vocal support over the 1/4 rupee.² Purshotam received sympathetic letters from Montagu Webb, who subsequently joined the Currency League and strongly opposed Government in their intention to appoint Denning, the one time Controller of Currency as the Governor of the future Reserve Bank.³

1. E.J. Bunbury to Purshotam, September 20, 1933, loc.cit.

"You should endeavour at once to organise opinion both inside and outside the Legislature in that the (Reserve Bank) Bill must not be passed, unless the ratio is at the same time settled."

As a consequence the League launched a campaign which received wide coverage. One report in the Chronicle claimed 'Country is in No Hurry for Reserve Bank'.

The Bombay Chronicle, November 16, 1933, p.8.

2. E.J. Bunbury to Purshotamdas, October 11, 1933, p.228, P.T.Mss 145.

"If you Indians play a strong but reasonable role with all the European support I can get I fell we should succeed."


Sir Montagu de P. Webb also approached the public through the Press, and his plea was that India's silver rupee could be the basis for her financial recovery if only a self-governing Reserve Bank was established. Later he was to make it clear that he was not for any more than a marginal revision of the rupee-sterling ratio.

The Bombay Chronicle, November 9, 1933, p.1, 'India on the Verge of Bankruptcy'.

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However, this European participation compromised Purshotam's stand on the ratio question. Smith and Bunbury, though enthusiastically in favour of Purshotam, efforts to pass the 1/4 rupee, refused to go any further.\(^1\) Smith wrote to Purshotam saying that he would not tolerate any demand for the floating rupee as he considered the demand far too radical and Bunbury in fact made it a condition of his

\(^1\) Purshotam's contact with European officials and businessmen had always been warm and cordial. An interesting illustration of this relationship was in late 1923 when a number of Bombay businessmen, Fuzulbhoy Currimbhoy, Cowasji Jehangir, R.D. Tata, Phiroze Sethna and Lalubhai, boycotted a meeting of the Associated Chamber of Commerce, that would consider and recommended a proposal that no protection should be given to Tata Iron & Steel Co. The Bombay businessmen refused to attend the gathering. But when the President of the Association personally assured Purshotam that a dinner in honour of the Governor of Bombay was purely social function, Purshotam accepted the invitation. The contrast of social cordiality in spite of commercial rivalry and racial prejudice is quite striking.

See also, Frank Nelson to Purshotam, November 26, 1923, p.403, P.T.Mss 42/IV.

See, Purshotamdas to Chunilal, November 1, 1933, p.435, P.T.Mss 42, Part IV; also Purshotam to Frank Nelson, Bombay Chamber of Commerce, November 27, 1933, p.401, P.T.Mss 42/IV.
participation in the League that the more extreme voices of the group should be discouraged.¹ Montagu Webb wrote from England enclosing a circular which bore testimony to his support of the 1s4d rupee, but it rejected the Indian demand for a gold standard.²

It was in this respect despite the very vocal support that Purshotam's European friends were ever ready with, that his more radical demands on the 1s4d rupee were watered down and then finally abandoned. Smith made Purshotamdas promise that the League would

¹ E.J. Bunbury to Purshotam, October 9, 1933, p.232, P.T. Mss 145.

"But I feel that I should require some assurance that the League was not going to embrace the extreme views which I have seen advocated in the Press by certain parties in Calcutta and Bombay. I have no common ground with those who talk of a 9 penny rupee, and I am strongly opposed to any attempts to talk a gold basis of any kind."

² Article entitled "Let India Lead", p.240, P.T. Mss 145.

"India must seize the present opportunity to engineer her own recovery by insisting that she is a silver-money using country."

publicly state that it was satisfied with the 1s4d rupee, a condition that caused Purshotamdas to lose a good deal of support especially from Ness Wadia who turned down Purshotam's offer to appoint him Chairman of the League precisely because he wanted the Executive Committee to foreswear this dogmatic adherence to the lower ratio.¹

Objectively, the depreciation of the dollar and severity of the depression had become such acute problems that the 1s4d no longer made enough economic sense; it was too small a revision to have had any effect on prices. Had the rupee actually been devalued to 1s4d it would still have been a grossly over-valued currency; something like 9 penny to the rupee, a demand articulated by Birla, or a freely floating exchange alone could have had any influence

¹. Sir Osborne Smith to Purshotam, November 13, 1933, p.292, P.T.Mss 145.

"I cannot understand why the latter (Ness Wadia) is now lukewarm, as he was most demonstrative and insistent for revision in London."
on the entire problem. A.D. Shroff, a strong supporter of the lower rupee wrote to Smith saying that he should re-consider his stand on the 1s4d as the small drop in the value of the dollar had made Indian products non-competitive and had almost entirely blocked off exports from this country. The Japanese

1. Since the revision suggested by Purshotam's English friends from 1s6d to 1s4d was so nominal especially after the world-wide depression, that the Bank of England and financial magnates of the City of London considered the revision a purely domestic Indian problem. This was a far cry from the attitude of the City before the 1929 stock market crash when a revision of 12.5 per cent was considered important and in fact critical.

See, E.J. Bunbury to Purshotamdas Thakurdas, September 20, 1933, p.129, P.T.Mss 145.

"I can tell you definitely that the Bank of England consider the ratio a purely Indian domestic question and they will not oppose a reduction. I might go further to say that probably they would if asked on the merits of this Indian domestic question express a view that... it is In India's best interests to depreciate the rupee. Now that is rather a change from 1926 and in any case to know that there would be no opposition from the Bank of England to a depreciated rupee is a valuable fact."

Notice the radical language used in spite of the fact that Smith's position called for merely a 12.5 per cent revision.

2. A.D. Shroff to Osborne Smith, November 22, 1938, pp.342-46, P.T.Mss 145.
Trade Delegation had been trying to withdraw from its commitment to buy Indian cotton (as the fall in the dollar continued) and in the face of such extreme developments the 12.5 per cent charge would have had no practical significance. Even Purshotam was increasingly wary of his hastily made promises to Smith and complained to Shroff that 16d rupee was too late. This was the classic dilemma of Purshotam who in courting European's support, damaged his entire approach to the problem and in doing so, he unwillingly isolated himself from Indian opinion. The Bengal leaders were particularly adamant and attacked Purshotam in no uncertain manner. In the Legislative Assembly, K.C. Neogy, a Legislative Member reported that though a determined effort was being made to give effect to Purshotam's ideas, the results were not hopeful as the present state of the Assembly was demoralised. The whole atmosphere was so rife with division that Neogy was happy even to count 48 members, which was nowhere near majority; on the issue of a State Vs. shareholders' Bank on December 5, 1933, the Government was easily

able to manipulate the vote in its favour. Birla wrote to say that if that was the fate of the Bank Bill what hope was there for the rupee.  

Throughout the difference and failures that plagued the working of the Currency League, the Government position benefited greatly. Schuster in India and Sir Henry Strakosch in England had put together a Reserve Bank Bill that had practically emasculated it of any but the smallest native control. Over the ratio, Schuster sensed the differences that had been developing and adopted a 'wait and see' attitude that in the interests of the Government was the most effective tactic to follow.  

Purshotam's repeated petitions against the deeply damaging efforts


2. Sir George Schuster to Purshotamdas, November 18, 1933, p.320, P.T.Mss 145.

"I can only feel, though I know that you do not agree with me that by far the wisest course for India is to maintain her present position and to wait upon developments and for a time when it may be possible to see more clearly what is the right line to take."
of the depreciating dollar were greeted by Schuster with a non-committal reply, which said that nobody knew exactly what ends American policy was aiming at. Schuster surmised that not even Roosevelt himself knew what he was doing.¹

Schuster's calculation was that if he could break up the ratio and the Bank and push through the Bank Bill fast enough before a determined opposition could form to restrict its passage then a great deal would have been accomplished. The native interests could always be shown that there did arise ample scope in the Bank Bill to review the situation once world economic conditions had settled down and, of course, once Government was quite sure that the Indians would not misuse their financial responsibility. Purshotam's plea that American cotton was now becoming competitive as the Indian, leave alone India's export of raw cotton that had almost entirely collapsed, felt on deaf ears, the Government's 'wait and see' attitude was considered a cure-all, after all it was difficult, said Schuster.

¹. George Schuster to Purshotamdas, November 18, 1933, p.318, P.T.Mss 145.
to decide where to peg the rupee. The Currency League which by all reports received a fair amount of attention did its best to dispel the Government's belief that the entire League was merely 'a ramp directed by a small group of astute and powerful Bombay speculators'.

In fact, the accusation stuck so well that Montagu Webb, the President of the Karachi Branch of the Currency League believed that the League should adopt a more comprehensive and ambitious title for itself to dispel the 'Bombay-speculators ramp' idea.

But the agitation had been check-mated; it no longer attracted the sympathy and support that it had during the 20's. By the late 30's and the start of the 2nd World War the debate was entirely forgotten never to be resurrected again.