Britain and the Indian Currency Crisis, 1930–2

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The early 1930s were crucial years in the development of the imperial relationship between Britain and India. Previous accounts of the period have seen this in predominantly political terms and have concentrated on the narrow process of constitutional reform that culminated in the 1935 Government of India Act. The origins of this Act are certainly an important subject, but one that cannot be properly understood without a wider knowledge of the priorities and concerns of British policy-makers for India and the empire over a wide range of issues. Part of the larger context needed for such a study can be seen through an analysis of the causes, course, and consequences of the Indian currency crisis of 1930–2.

Many aspects of the relationship between Britain and India were altered by the great depression of the early 1930s and its political consequences. For example, as has only recently been pointed out, this period was one in which the attitude of British policy-makers towards the problem of maintaining sales of Lancashire cotton goods in India underwent a fundamental change, with the carrot of bilateral consultation being substituted for the stick of imperial command. It was also the period in which important questions about the financial relationship between Britain and India and the monetary link between sterling and the rupee were at last dragged into the open although, in the event, they were then dodged rather than faced squarely.

The decision of the British government in September 1931 to take sterling off the gold standard and to impose a sterling standard on the rupee was momentous in itself. It is also important as illustrative of one important aspect of the imperial relationship. The year 1931 was the occasion for one of the last acts of naked aggression, so beloved for propaganda purposes by Indian nationalists, by the British government against the government of India. Despite the protests and threatened resignations of the Viceroy and the whole of his Executive Council, Whitehall imposed a harsh budget and a rigid monetary policy on India. These

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events seemed to support nationalist accusations that Indian monetary policy was designed solely to advance the interests of Britain, and that London’s claims to be about to confer greater autonomy on the government of India in a new constitutional settlement were transparently false. They also gave rise to new indictments—that the rupee was being manipulated to prop up sterling and to expropriate the gold of the Indian peasant for the Bank of England.

This article will investigate the policies and actions of the British and Indian governments during the currency crisis of 1930–2 in an attempt to separate fact from fiction on these points. A close analysis of the episode will also help to throw light on the underlying purpose of British rule in India, a purpose which had to be maintained in any new constitutional settlement. Further, the story of British policy in the Indian currency crisis of the early 1930s will illuminate aspects of Britain's relationship with other areas of the empire/commonwealth at a time when a distinct sterling area was beginning to emerge from the wreckage of the revivalist free-trade empire of the 1920s.

I

The Indian currency crisis of 1930–2 was a crisis of confidence in the rupee. Political uncertainty and economic depression stimulated a flight of capital from India and a decline in the market for her export staples, thus putting increasing pressure on the established exchange rate of R. 1 = 1s. 6d. The impact on the exchange rate of the world depression in commodity prices, which turned the terms of trade against India, sapped its balance-of-payments surplus in commodities and depressed internal prices, was aggravated by the British government's advertised policy of introducing sweeping reforms in the structure of central government. The mere mention of such reforms caused concern to overseas holders of rupees because, it was widely believed, the transfer of control over monetary policy to an Indian minister responsible to an elected central assembly (a likely result of a new Government of India Act) would lead to a deliberate devaluation of the rupee to 1s. 4d. at best and a generally inflationary monetary policy which might well push the ratio lower still.

The problem which faced the Indian currency authorities in 1930 and 1931 was how to relieve the pressure on the rupee exchange rate, either by restoring confidence in the future management of Indian monetary affairs, or by devaluing to increase the competitiveness of Indian goods in world markets and to counteract the impact of depression on the internal economy. Neither of these alternatives was practicable without support from London, for it was the British government that would decide the shape of future constitutional reforms and because India's foreign currency reserves were not adequate to defend a policy of deliberate devaluation without extra help from the Bank of England or the British Treasury.

By 1930 the British government had certainly become concerned about the Indian currency crisis. But the priorities of London-based policy-makers were not necessarily the same as those of their counterparts in New Delhi. So far as London was concerned, the central problem of the Indian currency crisis was ensuring the payment of the government of India's obligations in the United Kingdom, especially of the interest on the Indian sterling public debt and of the
“home charges” (the cost of the upkeep of the India Office and the pay, pensions, leave allowances, and training costs of Indian military and civilian service personnel).

The government of India’s sterling debt of over £350 million, and its home charges of approximately £30 million a year, had to be serviced and paid from revenue raised in India in rupees and then converted into sterling and remitted to London. The government of India was the largest dealer on the Indian foreign-exchange market. To meet its obligations in London the government of India needed to secure an adequate income in India and to purchase enough sterling remittance with the rupees thus raised. If sufficient revenue were not forthcoming the government of India had to borrow in India, or the Secretary of State for India had to borrow in London, to make ends meet. If, for any reason, the government of India could not purchase enough remittance, there were a number of options open. Gold or silver could be shipped from the official reserves and sold in London. The Secretary of State could borrow on the London market. A proportion of the Indian currency reserves was held in London in sterling and transfers from the government of India to the Secretary of State could be made through them by cancelling currency notes in India, thus creating a surplus in the London currency reserves which could be used as revenue.

None of these alternatives to normal remittance was looked on with much favour. Excessive borrowing by the Secretary of State was thought to be prejudicial to India’s credit-rating abroad. Shipping gold from the reserves in India was never a practicable proposition, since Indian commercial and political opinion was united in a desire to build up the gold reserves in anticipation of India’s moving from her gold-bullion standard to a full gold-standard system. Silver could be shipped at an acceptable political cost, but the world demand was small. Remitting through the reserves was a certain way of transferring cash from India to London, and was used extensively, but it was expensive both politically and financially. Many Indian businessmen and politicians were convinced that the rupee was overvalued and every time that the government contracted the currency in India to release sterling from the reserves in London, it faced a storm of protest. Furthermore, contracting the money supply in India tended to lower prices and raise interest rates, and this in turn could impose a strain on the budgets of central and provincial government.

II

The winter of 1929–30 was a time of political ferment in India, culminating in December 1929 with the announcement by the leaders of the Indian National Congress of their decision to launch a full-scale agitation against British rule, using currency depreciation, sterling-debt repudiation, and the penalizing of British commercial and financial interests as a major plank in their campaign platform. These events, in conjunction with the depression in the Indian economy, led to a considerable, although unquantifiable, flow of capital out of India.

1 Between April 1929 and March 1932 over £35 million, about one-third of the Secretary of State’s total requirements, was remitted in this way.

2 For a convenient statement of this view, see Sir Purshotamdas Thakurdas’s minute of dissent to the Report of the Royal Commission on Indian Currency and Finance (Cmd. 2687, 1926).
In normal years an influx of long-term capital was an important factor in balancing India's international account and in providing remittance for the government. Even more important in creating a demand for rupees, and hence in providing sterling remittance for the government of India, was the practice of the foreign exchange banks, which financed almost all of India's international trade, of transferring short-term funds to India during the trading season. This seasonal flow had been augmented, in the late 1920s, by the import of short-term foreign capital for investment in government rupee debt, following the government of India's deliberate policy of increasing the interest rates on its treasury bills to attract new sources of finance from overseas. From 1927 onwards this policy had some success, but its result was that when, in 1930, the head offices of the exchange banks became frightened by the deteriorating political situation and began to put pressure on their Indian branches to run down their balances and to obtain immediate cover for every transfer of funds to India, and when other holders of short-term rupee funds also started to withdraw their investments, the flight of capital put both government remittance and the funding of the rupee floating debt in jeopardy.¹

By 1930 it was clear that the rupee ratio was at risk. Refusing to buy below the lower gold point of 1s. 5½d. per rupee the government of India managed to purchase only £115 million worth of remittance between April 1929 and March 1930 and in the next fiscal year it had to sell £300,000 more sterling than it was able to buy. The Secretary of State's commitments in London of £64 million over these two years could only be met by remittance through the currency reserves, running down the home treasury balances, and borrowing in London.²

To meet this exchange crisis the government of India had a number of devices for controlling the supply of currency and credit in India. Weakness in the exchange and failure in remittance were thought to result from inflated, non-competitive prices in India and a surplus of loose money available for currency speculation. Low interest rates in India also meant that those who needed rupees to purchase India's exports found it cheaper to obtain these by borrowing in India than by selling sterling to the government at the fixed exchange rate. The solution was to contract the money supply by remitting through the currency reserves, to issue treasury bills to mop up floating capital, or to raise the Imperial Bank of India's rate for advances. All these expedients, or any combination of them, would, it was thought, inhibit speculation and, by forcing down Indian prices and raising credit rates, ensure a boost in exports, bring out remittance, and strengthen the exchange.

Unfortunately, the reality of 1930–2 did not match up to the diagnosis implicit in this approach. The technical remedies available to the monetary authorities were designed only to correct imbalances in the internal economy stemming from financial causes, while the origins of the crisis of 1930 were to be found, as the

¹ On the movement of short-term funds, see Government of India Finance Department (henceforth G.O.I.F.D.), file 15(X)F, 1927 (National Archives of India), and India Office Finance Department (henceforth I.O.F.D.), file L/F/6/1169, 1930, no. 7459 (India Office Records). There is also some evidence that Indians were exporting capital during this period.
² 'The sterling and gold resources of government and the problem of remittance', memorandum by Sir George Schuster dated 30 Oct. 1939 [ibid], Treasury Papers (henceforth T), 160/519 F. 12471/05/4 (P.R.O.).
government of India frequently pointed out, in the world economy and the political situation. And even without these special circumstances the policies available to the Indian monetary authorities were not very effective for shoring up the exchange rate. The absence of a central bank hampered all attempts to manage the Indian economy. Currency contraction tended to be an inefficient way of lowering prices, for it was the accepted policy of the Imperial Bank of India to make advances freely on treasury bills. Thus, when the government issued such bills to finance a contraction of the currency it was, at the same time, creating sources of credit which would counteract the contraction. It was also extremely difficult for the Indian authorities to devise policies to hold short-term funds in the country. The exchange banks kept a large proportion of their Indian reserves in the form of treasury bills so that, if they wanted funds to remit home, all that they had to do was to cash in these bills on maturity. This, in turn, would create an acute short-term funding problem for the government of India.

There was one further major difficulty with a policy of contraction as far as the government of India was concerned. Deflation of the domestic economy affected the customs duties, income-tax returns, and land revenue on which central and provincial governments depended for their revenue, and also made it difficult to raise extra money in long- or short-term loans. The only way out of a severe budgetary crisis was to inflate the currency, by the government of India issuing treasury bills to the Paper Currency Reserve and the Controller of Currency paying for these by printing extra notes "covered" by the increase in securities in the reserve. This device, which an earlier Secretary of the Finance Department had called to "reach for the morphia syringe", was thought prejudicial to public confidence in the convertibility of the paper currency and was seen to be inflationary. By nullifying the effects of deflation it further put the rupee exchange at risk.

Despite misgivings, Indian Finance Department officials tackled the currency crisis with the resources they possessed. During 1930 and the early months of 1931, goaded by constant demands from the India Office, the monetary authorities contracted the currency tighter and tighter, and even encouraged the Imperial Bank to impose conditions on the uses to which its advances could be put. Even so, by May 1931 it was clear that the breaking-point had been reached. The Secretary of State was in urgent need of funds, but there seemed to be no way of getting money to him. The rupee was at 1s. 5½d. and no remittance would come out unless it were forced up by another ½d.; a sterling loan in London had just failed and another could not be tried until conditions were more stable. The India Office suggested yet more contraction, but, as the government of India pointed out, there were no resources left to effect this and such a policy would increase agrarian distress in India and thus, perhaps, wreck the fragile truce with the nationalists concluded a month earlier.

The Indian authorities were convinced that it was now time to abandon ineffectual technical remedies and to attack the root cause of the problem—the loss of confidence caused by political uncertainty and the world depression in the

price of primary produce. Since India's new constitution was being made in London, only the British government could repair the situation. The government of India suggested that the British government should provide a drawing credit for India of £50 million to ease the budgetary problems of the Secretary of State and to show that "they are prepared to back India financially while the constitutional changes are being considered and initiated."¹ In early September the Indian Finance Member, Sir George Schuster, suggested a still more radical solution. Using a credit from the Bank of England he now proposed to ease the strain on the rupee, raise Indian prices, give a boost to exports, and placate nationalist opinion by devaluing to 18. 4d.²

In London the India Office officials were well aware of the effect of political uncertainty on government remittance, but found it easier to diagnose the problem than to cure it. The political considerations were delicate. The confidence of foreign holders of rupees could be restored by providing wide-ranging safeguards over the control of monetary policy in the new Indian constitution, but to insist on these would prejudice the success of the round-table conferences with Indian leaders and might well swell support for nationalist agitations. On the other hand, accommodating Indian opinion by devaluing the rupee would have even more serious consequences. It was thought likely in London that the rupee, once devalued, would sink to near its bullion value of 8d. Such a collapse in the exchange rate would disturb the whole pattern of India’s foreign trade and internal economic life and, most importantly, would greatly increase the rupee costs of the government of India’s sterling obligations. The central government budget was already in deficit and revenue was hard to increase during a time of depression and currency instability. The only way that the Indian government would be able to meet its internal commitments would be by inflating the currency, which would push the exchange rate lower still. Default on India’s sterling debt would be the inevitable result.³

During 1930 and early 1931 the India Office officials wriggled on the horns of this dilemma. Soothing words were used to salve the wounds. In January 1930 the start of the nationalist campaign of civil disobedience caused a collapse in the price of government of India sterling loan stock on sale on the London market. In consultation with the Treasury the India Office published an open letter which made it clear that, while India's sterling debt was in no sense guaranteed by Britain, His Majesty’s government had “no intention of allowing a state of affairs to arise in India in which repudiation of debt could become a practicable possibility”.⁴ A year later, when the Prime Minister was drafting his speech for

¹ Government of India (Finance Department) to Secretary of State, no. 1299-S, 9 May 1931, G.o.I.F.D. (8)F, 1931.
² ‘Note on finance and currency’ by Sir George Schuster, sent as private and personal telegram (8 Sept. 1931), Viceroy to Secretary of State, Templewood Papers, vol. 11, bd. 2 (India Office Records). The idea of devaluation had been in Schuster's mind for some time. In Sept. 1930 he had suggested to Montagu Norman that the idea should at least be considered, but had received no encouragement whatever. See Schuster to Lord Irwin, 9 Oct. 1930, Halifax Papers, vol. 11 (India Office Records).
³ For the clearest statement of this view see the memorandum by G. H. Kisdi, 'The effect on Indian economy and credit of a collapse of the rupee exchange' (18 Sept. 1931), I.O.F.D. L/F/6/1183, 1931, no. 6444.
⁴ See correspondence in Ti60/472 F.11879 and I.O.F.D. L/F/7/792, coll. 81/55. The quoted formula comes from an open letter from A. Hirtzel (Under-Secretary of State) to Mr Holloway, 21 Jan. 1930.
the end of the first round-table conference, India Office officials, again in alliance with the Treasury, successfully put pressure on MacDonald and Wedgwood Benn (the Secretary of State for India) to specify that essential safeguards would have to be written into any scheme of constitutional reform to ensure that India continued to meet its sterling commitments.¹

Both these statements of intent increased investment in India's sterling public debt and so, by making it possible for the Secretary of State to raise more of his requirements on the London market, eased the remittance problems of the government of India. Yet this did not provide a satisfactory permanent resolution of the larger issues. By May 1931 it was clear to the India Office, as it was to the government of India, that a crisis point had been reached and that some unequivocal decision would have to be made. When the Indian idea of a £50 million drawing credit was sent to them (the amount was shortly afterwards raised to £100 million) the India Office officials took it up with enthusiasm and succeeded in getting the Finance Sub-Committee of the Cabinet Committee on India to agree to it.²

This was going too far for the Treasury, however, and, when the proposal came up to the full Cabinet Committee for ratification, the Chancellor of the Exchequer stepped in to bar the way. The Treasury had always refused to consider any proposal for alleviating India's difficulties by “transferring the burden, even contingently, on to the shoulders of the British taxpayer”³ and now protested that the “absurd” proposal for a drawing credit would, in the end, leave the British Exchequer liable for all India's obligations in London and for all Australia's as well.⁴ In preference to this the Treasury suggested either abandoning any plans for constitutional reform or else devaluing the rupee without any support or British commitment.⁵

The India Office, as we have already seen, regarded an unsupported devaluation as the shortest road to ruin. In late June 1931 the whole issue was thrashed out in the Cabinet India Committee. The Chancellor still firmly opposed any plan for a drawing credit and urged devaluation in preference to any firm commitment by the British government, but the majority, including the Prime Minister, supported the India Office in finding the consequences of devaluation too horrible to be contemplated and so a compromise was patched up—the British government would make a vague, general statement of support for Indian finance.⁶ This was announced by the Prime Minister in the House of Commons on 26 June:

> It will not be possible to introduce the proposed constitutional changes if financial stability is not assured and His Majesty's Government are determined not to allow a state of affairs to arise which might jeopardise the financial stability and good government of India for which the Secretary of State is at present responsible. They have, therefore, decided that, should the need arise, they will apply to

¹ See correspondence in T160/399 F.12471, annex 1, pt. ii. The safeguards delineated were those suggested by the Federal Structure Sub-Committee of the round-table conference—a non-political reserve bank and special powers for the Governor-General over budgetary and monetary policy.
² Cabinet Office Papers (henceforth CAB) 27/471; BDG (31)6, 19 June 1931 (P.R.O.).
⁴ Note by Leith-Ross, 4 June 1931, in T160/400 F.12471/03/1.
⁵ Note by Sir Richard Hopkins, 10 June 1931, and unsigned note, 13 June 1931, T160/400 F.12471/03/1.
⁶ CAB 27/470; BDG (31)7, 25 June 1931; note by Hopkins, 24 June 1931, T160/400 F.12471/03/2.
Parliament for the authority necessary to enable them to give financial support under suitable conditions to the Government of India for the purpose of maintaining the credit of the country.  

The India Office had to pay dearly for even this statement. The Treasury officials hoped that the Prime Minister's announcement would restore confidence without ever having to be backed by action, and they insisted that a rigidly deflationary budget and monetary policy be imposed on India, and that the Secretary of State's reserves be used to the full, before Parliament could even be asked to provide assistance.

The Treasury's commitment to the Prime Minister's statement was always less than whole-hearted and it was never decided what form British assistance might take in practice. Nor was the statement itself effective in restoring the confidence of holders of rupees—by August 1931 the flow of capital out of India was as heavy as ever and the prospects for a new sterling loan were nil. But the statement did have one vitally important result. After the end of June 1931 the Treasury officials became convinced that the Exchequer would be unable to avoid providing compensation for British investors in India's sterling public debt should the government of India ever default. Thus, when the crucial decision about the rupee link to sterling was made in September 1931, the Treasury now fully supported the India Office line that no risks could be taken with the rupee ratio.

The drain of capital out of India, and the consequent pressure on the rupee, began again in August. From January to June the Indian authorities had paid out almost £3 million to support the exchange; in August the rs. 6d. rate cost a further £4 million and in the first three weeks of September a further £5 million. The Secretary of State's commitments until November could be met by floating sterling India bills, for which there was still a market, but between then and March 1932 he would need an estimated £30 million income (most of it to cover a debt repayment in January). It did not seem likely that any remittance would be available, the total currency reserves that could be used were only £46·8 million (£30 million of them in India) and the home treasury balances stood at £5·7 million.

A new crisis had arisen and yet, despite the decisions of the previous months, the India Office reacted to it in the traditional way. The government of India was forced to introduce a deflationary emergency budget and the India Office began to demand that gold be shipped from the Indian currency reserves to London.

September 1931 was, of course, a period of monetary crisis in Britain as well as in India. At the heart of sterling's problems was thought to lie the lack of foreign confidence caused by illiquidity in London, the low reserves of the Bank of England, and the large amounts of British money tied up in short-term loans to

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1 Hansard (Commons), 1930–1, ccxlv, coll. 769.
2 Secretary of State to Government of India (Finance Department), no. 2041, 7 July 1931, I.O.F.D. L/F/6/180, 1931, no. 5352.
3 In Sept. 1931 Sir Findlater Stewart of the India Office was informed that the Prime Minister "does not want to close the door to an escape from the guarantee".—Note for Stewart by H. A. Rumbold, 14 Sept. 1931, I.O.F.D. L/F/7/897, coll. 107.
5 See CAB 24/224; CP232(31) and note by Leith-Ross, 28 Sept. 1931, T160/474 F.12471/36/1.
6 Unsigned, undated note, T160/4000 F.12471/04.
7 CAB 24/224; CP232(31).
poor creditors. In regard to India the opinion of the British government was now that a falling rupee and a defaulting government would bring the pound and the empire's financial reputation crashing down with them.\(^1\)

On 19 September it was decided to take sterling off the gold standard. A committee drawn from the India Office and the Treasury recommended that the rupee should also leave gold and should be settled on a sterling standard at the Rs. 6d. ratio.\(^2\) To prevent argument this decision was announced in London before it was cabled to the government of India. Angered by this treatment the whole of the Viceroy's Executive Council threatened to resign, but were dissuaded by an unprecedented appeal from London for imperial solidarity. This appeal was touching, but it did not contain any concessions.\(^3\)

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III

The action taken by British policy-makers in September 1931 was not intended to solve the problems of Indian finance, and even less to mitigate the strains caused by the great depression on the Indian economy. As has been seen, the officials of the Treasury and the India Office were concerned to prevent the situation from becoming much worse, rather than with trying to improve it in any way. And yet their policy, by creating a premium in the sterling price of gold, did provide a way out of the impasse.

With sterling and the rupee depreciated it was now possible to sell gold in London at a considerable profit, and large amounts of commodity gold began to be exported from India. Between September 1931 and March 1932 Rs. 629 million worth of gold left private hoards in India and was sold in London. In 1932–3 a further Rs. 672 million worth was exported, and in 1933–4 another Rs. 592 million worth. The flow continued for the rest of the decade—between September 1931 and March 1939 India's net exports of gold totalled Rs. 3,072 million (£230.97 million) worth, although this was still over Rs. 1,200 million worth less than India's total net gold imports in the period 1921–9.\(^4\)

The question of where this gold came from is a vexed one. Gold was the preferred savings medium of the vast bulk of the Indian population. The mechanisms of the new gold export trade, like those of the traditional gold import trade, are not yet properly understood. It is not yet possible to assess to what extent the bullion exports were the result of agriculturists being compelled to liquidate their savings to pay rent and revenue, or of more voluntary decisions to take advantage of the rise in the rupee price of gold. It is also not yet possible to estimate the impact of the new liquidity in the Indian economy, resulting from the sale of so much gold, on internal economic development during the rest of the 1930s.

The gold exports effectively solved the problems of Indian currency and finance, strengthening India's balance-of-payments surplus on private account

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\(^1\) See CAB 24/224; CP 243(31). Interestingly enough, the Prime Minister's personal file on the last stages of the sterling crisis (Premier's Office Papers, 1/97) contains copies of the monthly balance sheets and estimates of the India Office for the summer and autumn of 1931.


\(^3\) The government of India accepted a sterling standard for the rupee, but wanted an extra devaluation for the Indian currency. The Treasury scotched this move by declaring that the June guarantee was conditional on the Rs. 6d. rate.

\(^4\) A. K. Banerji, India's Balance of Payments, 1921–2 to 1938–9 (1963), table iv.
and, in 1932–3, giving it a visible balance-of-payments surplus with Britain for the first time this century. The gold trade also provided the government of India with adequate remittance to meet all its commitments in London, allowed the monetary authorities to expand the currency by over Rs. 500 million in the second half of 1931–2, and put gold on the London market for the Bank of England to buy in sterling and use to pay back Britain’s own obligations to the United States and France.

The outflow of gold from India was so opportune, coming at just the right time and in just the right manner for both the government of India and the British government, that it is tempting to assume that British policy towards India had been designed to ensure that it took place. However, there is no evidence whatsoever to suggest that this was the case. Neither before, nor immediately after, the break with the gold standard did anyone in London or New Delhi anticipate what would happen. As late as the end of November 1931, when gold was already being shipped from India, the government of India, the India Office, the Treasury, and the Bank of England were gloomily contemplating what fresh emergency measures would be necessary to obtain the sterling needed to meet the maturity of £15 million worth of India bonds in January 1932. Of officials in India and London greeted the gold exports with delight and relief, but still caused themselves needless worry by consistently underestimating the volume and the length of the flow. As the Government of India Finance Department put it in early 1933, the gold exports were “a purely accidental condition the continuance of which for any length of time cannot be relied upon. This is so well known that it need not be dealt with at any length.”

Ironically, the gold exports, vitally important as they were, were unplanned and unexpected.

So far as Whitehall was concerned, the Indian currency crisis had been resolved by 1932. Constitutional reforms could now be introduced safely, provided only that the confidence of foreign holders of rupees was buttressed by rigid financial safeguards and an insistence on the established ratio. The important safeguards laid down in the new Government of India Act were discretionary powers for the Governor-General over budgetary and monetary policy, and the establishment of a non-political reserve bank to act as a central bank in India.

The government of India officials were less happy with this stress on safeguards, but were eventually forced to accept a Government of India Act and a Reserve Bank of India Act based on these principles. The Indian authorities also continued to be unhappy about the solution that London had now found to the larger problems of Indian currency. To the Indian Finance Department linking the rupee to sterling at the old ratio was, at best, a necessary evil and was only justifiable as a permanent solution if the British government were to direct its monetary policy towards raising sterling prices. The depreciation of sterling from its old rate had boosted Indian prices to some extent by 1932, but the future was still uncertain. Since they were now tightly bound to sterling, the Indian officials

3 This is not as surprising as it may seem at first sight. On previous occasions when the rupee exchange had fallen against gold prices (as in 1922–3) no significant exports had taken place.
looked to an imperial solution. From September 1931 until the Ottawa Conference of July 1932 the government of India added its voice to the swelling dominion chorus urging that sterling policy should be based on the requirements of the empire as a whole.¹

These appeals fell on deaf ears. By the spring of 1932 British policy-makers were prepared to accept that a sterling area was the best medium-term solution to Britain’s international monetary problems and were prepared to concede that sterling’s natural level lay some way below the exchange rate imposed in 1925. But the Treasury was not willing to see sterling devalue too far, for this would depress the returns on British overseas investments, thus damaging the balance of payments, and, by sapping foreign confidence, would create problems in the repayment of debts and the rehabilitation of London as a world financial centre.²

The hopes of the government of India that the Ottawa discussions might lead to the establishment of a sterling bloc in which all the participants would have a voice in the making of currency and credit policy³ were quickly dashed as it became clear that sterling policy was going to be decided in Britain’s interests, and that these were not necessarily the same as the empire’s. At the Ottawa conference the only concession that Neville Chamberlain was prepared to make was the general expression of a wish to see sterling prices rise, and a promise that British short-term credit policy would be directed to this end. It was alleged that the Chancellor might have gone further than this had he not received a series of telegrams from the Bank of England warning about renewed American speculation against the pound, and that what he did say went further than the Treasury representative at the conference had wished to go.⁴ The government of India was now forced to recognize that the British government was not prepared to risk its own perceived interests in order to help the Indian economy.

IV

The devaluation of sterling and the rupee in 1931, London’s cheap-money policy, and the British government’s other monetary and non-monetary measures aimed at raising world commodity prices undoubtedly helped India to recover from the great depression. But the way in which India had been treated during the currency crisis of 1930–2 did little to still Indian official and non-official criticisms of London. The government of India had been arguing that India’s interests required the rupee to be devalued more than British interests required sterling to be devalued against other major currency blocs. Devaluing the rupee by 12 per cent against sterling in the summer of 1931 might not have helped the Indian economy very much, but such an action could well have helped to improve relations between Indian business and political opinion and the British

¹ Government of India (Finance Department) to Secretary of State, no. 2476-S, 3 Oct. 1931, no. 746, 9 March 1932, no. 2745-S, 10 Nov. 1931, I.O.F.D. L/F/7/561, coll. 45/15. Some of the Secretary of State’s financial advisers now supported the government of India—a memorandum of 8 March 1932 by Sir Reginald Mant and Sir Henry Strakosch (ibid.) even argued that, since India’s gold exports had greatly benefited Britain, the Treasury should look kindly on India’s wishes for sterling policy.

² See papers in T175/56, T175/57, pts. 1–2 (especially the various drafts of the Treasury memorandum of 8 March 1932 for the Cabinet Committee on Currency Questions), T172/1768, T175/1775, T168/48.


bureaucracy and, by promoting the economic development and political tranquility of India, have brought lasting benefits to Britain itself. As it was, currency policy, which in 1931 Schuster had called "the worst cause of discord in recent years", remained a contentious issue in the relationship between Britain and India until 1947.

It is interesting to compare British policy towards the Indian currency crisis with events elsewhere in the empire/commonwealth. The impact of the depression in Australia was very similar to the Indian case. Here, too, the collapse of primary-produce prices and large sterling debts in London caused an acute economic, budgetary, and monetary crisis. Yet the Australians were able to use a much more flexible policy. In 1930-1 the Australian pound was devalued by 25 per cent against sterling, although this was the result of unchecked market forces, not of a deliberate policy by the Commonwealth government or the Commonwealth Bank. The Treasury and the Bank of England were worried by this, but did no more than offer advice and, in 1932, a drawing credit of £3 million to boost Australia's London reserves and so prevent a further collapse in the exchange. New Zealand also devalued, and also received a Bank of England credit of £3 million to allow it to meet its London commitments.

The major difference between the Antipodean and the Indian cases seems to have been simply that the British government had formal powers of control over the government of India that did not exist elsewhere. It is also true that, because Australia and New Zealand sent a higher percentage of their exports to Britain, and because there were not major outflows of British capital from these countries, their sterling position was never as desperate as was India's and the credits required were much smaller. Further, even a slightly suspect Australian or New Zealand government was thought to be more trustworthy, and credit-worthy, than a future Indian administration containing a Finance Member fully responsible to an elected central legislature.

British policy during the Indian currency crisis of 1930-2 revealed an interesting and important point about the nature of British interest in India during what can be called the geriatric years of the raj. The events of 1930-2 demonstrated that the British government did have a substantial financial stake in India, and that any future scheme of constitutional reform would have to be modified to ensure that this stake was maintained. Yet these same events also revealed that this stake was short term and defensive, not positive or dynamic. It was, in fact, an overwhelming concern to ensure that the British taxpayer did not have to foot the bill for India's debt repayments and pension obligations. When the Treasury discovered, in June 1931, that the British Exchequer would be unable to avoid covering the debts of a defaulting India, one door to radical constitutional advance was closed. It was not to be reopened until 1945, when India had replaced its sterling debt of £350 million with sterling balances of almost four times as much.

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