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# INDIAN COMMERCE

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## A Big Contrast.

When one notes the country wide agitation that is going on during the last two-and-a-half years, ever since England went off the gold standard for putting an embargo on the export of the much coveted yellow metal from the land, has not yet secured the support of the Government of India and that even now every Saturday a P. & O. Steamer leaving Bombay carries with her a cargo of gold either for America or for other western nations, one will naturally be very eager to know how the government authorities in foreign countries view this problem of gold conservation. The authorities of New Zealand, a British Colony in the Far Eastern Pacific waters which is now faced with a problem similar to that of India in the matter of establishing a Reserve Bank in the near future, view the importance of conserving the existing stock of gold in that country in a very different light and they consider, rightly as they must, that the support of a good gold reserve to back up the circulation of the proposed



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Reserve Bank of New Zealand is an important preliminary to its successful working and as such the country's stock of gold, including that in the hands of the trading banks must necessarily be acquired by the State. Our legislators too had been unanimous in their demand to put an embargo on the export of gold and as one of the chief reasons in support of their demand, the need for having a good supply of gold in the land on the eve of the inauguration of the Indian Reserve Bank that is now in the Legislative anvil was oft quoted by them and it is a pity that it fell on deaf ears. When in a British Dominion the authorities have found it necessary to take effective steps to secure from private resources and to retain the gold available in that country *for the very reason* of protecting the interests of the proposed Reserve Bank, it is all the more a great wonder how the Finance Member of the Government of India has considered himself justified in paying no heed to the popular demands of the country, made in her better interests. In this connection we quote below the extracts from the speech of Mr. Thomas Buckland, President of the Bank of New South Wales, Sydney, (Australia) at the ordinary general meeting held on 28th November 1933. Under the heading 'Proposed Reserve Bank of New Zealand', Mr. Buckland observes:—

“The most important piece of legislation

in New Zealand during the year, as far as this bank is concerned, has been the proposed establishment of the Reserve Bank of New Zealand. The Bill has several objectionable features, including provisions which may lead to undue Government influence, but the most objectionable feature is the price at which the Reserve Bank is to take over the gold holdings of the trading banks. It was agreed that all the gold in New Zealand should be centralised in the Reserve Bank, so as to enable it to function efficiently. But the Government proposes taking over the trading bank's gold at £3—17—10½d, per standard ounce, the old fixed mint price, and placing any profits, so-called, which would arise from this sale of gold in the open market, to the public account. The banks consider that this proposal amounts to nothing less than confiscation of property.

The New Zealand proposal, if carried out, must damage the credit of the Government in London, as there is nothing to guarantee that future Governments of that country will not follow the example and confiscate other property at predetermined prices. Investment in New Zealand Government Securities



under such circumstances will be risky and uninviting."

At the time the above observations were made the price of gold in the open market was at about 120 shillings per ounce, nearly 40% higher than the old mint par price.

Perhaps the proposal of the Government of New Zealand to acquire the gold holding in that country at the old price is far too drastic to be imitated by India. But it teaches her a good lesson in that, that if even such a drastic proposal is considered necessary in the interest of the efficient working of the Reserve Bank of New Zealand, certainly India's demand to bring forth immediately a measure to put a stop to the export of gold from the country or in the alternative to purchase the country's gold offering at the current market price by the Government of India and keep it within the country itself so that the Indian Reserve Bank may start working with a good gold backing is indeed a

very modest demand and there can be no two opinions about it. We believe even now it is not too late and a timely step, if boldly taken *now* and *immediately* by the Government to put an end to the export of gold from the land, will have its own good effects. Now that Washington has decided to return to gold standard ten days ago, with a dollar the gold contents of which is to be reduced by 40% and that a scheme of vigorous purchase of gold in the open market is in active operation, India should make up her mind to preserve her existing stock of gold at any cost and see that she does not part with a commodity, the only commodity that has a universal exchange value at all times. We hope our legislators and the Chambers of Commerce all over the country, in spite of their previous disappointments, will again lodge their emphatic protests against the 'wait and see' policy that is now being adopted by the Government of India and see that the export of gold from the country is a tale of the past.

## British and American Monetary Conditions in 1933.

A REVIEW BY

F. C. GOODENOUGH, D. C. L.,

*Chairman, Barclays Bank Ltd., London.*

At the ordinary general meeting of the shareholders of Barclays' Bank, Ltd., held on the 18th January 1934 at London, Mr. F. C. Goodenough, who presided, in the course of his remarks on the Monetary Conditions, Situation in the United States, "Commodity Dollar" System and the Ottawa Agreements, among others, said:—

The profit for the year showed a small increase as compared with the previous year. There had been practically no improvement during the year in Money Market conditions,

and there had been little demand by customers for fresh loans. In fact, a further reduction had taken place in the total of loans granted. The percentage of advances to customers to the total of deposit and current accounts had declined to the exceptionally low ratio of 39.3 per cent.; compared with 40.11 per cent. on 31st December, 1932, and 51.32 per cent. at the end of the year 1931.

Having regard to the present somewhat more favourable outlook, and to the fact



## Sound Money.

### An Open Letter to the Chamber of Commerce of the State of New York.

*Chamber of Commerce of the State of New York,*

Dear Sirs:

I have your letter asking my views on sound money as part of your campaign for a return to the gold standard.

I make no pretense of being an expert on gold. This much I know— that the gold standard on the whole has worked well. The reasons are obvious. There is a limited amount of gold in the world. This amount varies little. Gold is easy to handle. Men want gold and for ages have regarded it as a standard of value. Every reader of the Bible knows this. The terms in which the common man speaks of gold today have been handed down to him from countless generations of ancestors of every race and breed. A great many of the stories which have been written, or told, have gold as the central motive. Gold does not always play a noble part in these stories. It is often the root of all evil, but it is always the symbol of wealth. Since the dawn of civilization and the end of the age of barter, it has represented security, reliability and the unquestioned medium of exchange. Civilization has taught us that gold is not a god to be worshipped. It is, however, an instrument which has served men well. The burden of proof is therefore, on those who want to get away from it.

In no other country in the world have sound money and the gold standard served

better than in the United States. Can it be possible that the nation which repudiated BRYAN and narrowly averted a great national financial tragedy in 1896, and which rejected Bryanism twice thereafter, will now embrace monetary inflation? Can it be possible that the political party, which for a whole generation was deprived of national public office because of its free silver and other economic heresies, will now, in the hour of its opportunity, go back to the very doctrines which in the past alienated the wisest and best of its members and drove them out into the opposition? Is the Democratic party fated to be always the party of greenbackers, paper money printers, free silverites, currency managers, rubber dollar manufacturers and crackpots? I don't believe so. But if so, the issue is more than a partisan one, because we are dealing today with the party which actually holds responsible government office, which is not merely advocating curealls in a campaign, but which has in its hands the present welfare of 130,000,000 people and the future of our most cherished American institutions.

This is an era of experiment. The argument seems to have prevailed that everything which has served us in the past and everyone who has been identified with bygone prosperity, should be under suspicion. The national Administration has, therefore, turned to those who have ideas but no experience, to those who think they know how things should be done without ever having



had the responsibility of trying out their theories. I have no objection to amateurs and novices, and no fear of experimentation as such. As I said in an article in the *NEW OUTLOOK* some months ago with reference to the academic planners who now for the first time have a great big public laboratory for their experiments, "if we could give the planners a corner of Alaska or a chunk of the Bad Lands for their experiment, it would not be so serious. Then if the laboratory blew up, the whole nation would not suffer." Even universities do not call young professors of agricultural economics to the president's chair. They let the lecturer teach the boys and girls in the classes, but they get an executive to run the university. We have recently reversed the process in our national government. We have put the nation to buying and selling gold, on the assumption that by so doing we can control prices and thus restore prosperity, in the face of the fact that there is absolutely no evidence to support this theory, and of the even more obvious fact that not one person out of a thousand can understand it.

What we need in this country is absolute dependability in our money standards. It is the only thing which will restore confidence. The latest fiscal moves of the Administration have undermined public confidence. They have created uncertainty. Uncertainty paralyzes business, discourages private initiative, drives money into hiding and places the entire burden of sustaining the population on the central government. We are told that there is a new theory of govern-

ment abroad. It is the theory that the executives are quarterbacks on a football team who do not know a minute in advance what signal they will call next. They determine the plays on the basis of "hunches." Of course, this is just another name for opportunism. There is nothing new in it. It never pulled a great modern industrial nation out of a depression. What the people need today is what the Bible centuries ago described as "the shadow of a great rock in a weary land". That was what CROVER CLEVELAND represented to the people in his day—a symbol of strength and firmness, of coolness, of rock-like integrity in the midst of shifting sands, heat and desolation.

A century and a half ago PATRICK HENRY made a speech to the Virginia legislature which is known today to every school child in the nation. He said: "I have but one lamp by which my feet are guided, and that is the lamp of experience." In the absence of anything definitely known to be better, I am for a return to the gold standard. I am for gold dollars as against baloney dollars. I am for experience as against experiment. If I must choose between private management of business and management by a government bureaucracy, I am for private management. I am ready to go through a certain amount of deflation if the choice is between this and outright money inflation. If I must choose between the leaders of the past, with all the errors they have made and with all the selfishness they have been guilty of, and the inexperienced young college professors who hold no responsible public office but are perfectly



ready to turn 130,000,000 Americans into guinea pigs for experimentation, I am going to be for the people who have made the country what it is. And I say this with full knowledge of the fact that there are many things in the old order of society which I should like to have changed and which I do not applaud or even condone.

The fundamental cause of the depression was not lack of economic planning. It was not bad leadership in government and business. It was not over-production in agriculture and industry. These were all effects rather than causes. Even the World War was not the underlying cause. As I have said before, the fundamental cause was as old as original sin. Stubborn human nature is basically responsible for the world's economic miseries, and it is only by raising the general level of human character throughout the world that a new society, free from war, brutality, oppression, arrogance, inequality, selfishness, snobbery, waste, disease and unnecessary sorrow and suffering, can be brought about. It can't be done by magic, fiat, hocus pocus or mere experimentation.

There is no middle course in this sound money controversy. There is no way of playing both sides, and conciliating both the money inflationists and the sound dollar conservatives. That is the trouble with a battle of extremes, such as the one we seem unfortunately to be heading for. In such a battle, we have a choice of one of two

things. It is like an election in which there are two candidates. We may not regard either one of them as perfect, but we have to make a choice or lose our vote.

I know that in writing this letter I am inviting the charge that I have "gone Wall Street." Well, this is not the first time I have taken the unpopular side of a great national question, and have seen my position justified in the end. I have been in a temporary minority before, and it has no terrors for me. No one who has gone through what I went through in 1928 is going to be worried by sneers and epithets. In the end the country will rally to the gold standard as it rallied to the standard of prohibition repeal, because these are the American standard, and because in a democracy truth is mighty and will prevail.

As a young man, I followed my party faithfully through the "cross of gold" period, when oratory was thought to be a perfectly satisfactory substitute for sound economy and common sense, but I am too old now to be *regular* just for the sake of regularity. And I have earned the right to be independent when I think the public good demands it.

Put me down, therefore, as a sound money man, and as being with you in your campaign.

Very truly yours,

(Signed) ALFRED E. SMITH.

*Bulletin of the New York Chamber of Commerce.*



## The Gold Standard.

BY

PROF. J. H. JONES.

## I.

Before the war of 1914-18 the gold standard was among the things taken for granted as an element of Western civilisation. It had served England for nearly a century. The echoes of the bimetallic controversy on the continent of Europe had already died away. It was a controversy that belonged to the nineteenth century. The silver question had ceased to be "spot news" in the newspapers of the United States of America. The spirit of nationalism in currency affairs was on holiday. When, in the last three decades of the nineteenth century, one country after another joined the gold standard group, their action was held to be a sign of progress and they seemed to hold their heads higher than before. They acquired prestige. It was thought that in the Far East the process of industrialisation would be marked—as, indeed, it had already been marked in India and Japan—by a transition from a silver standard to a gold standard adjusted to national conditions.

An unvarying price average was not, however, among the achievements of the gold standard. For roughly two decades before the Franco-Prussian war, the so-called general level of prices had risen under the influence of an increase in the rate of annual supply of gold following upon the

Australian and Californian discoveries. The post-war boom, which reached its greatest height in the winter of 1872-73, was followed by a downward trend which, if measured from the top of the boom to the bottom of a depression, continued for approximately twenty-three years. This trend in prices is usually attributed to a fall in the rate of annual supply of gold, but I believe it to have been due, in greater measure, to a rapid increase in the world demand for gold required for monetary purposes. It covered the period during which the gold standard became popular. One after another of the silver and bimetallic countries transferred their allegiance to gold. The United States returned to gold after several years on a paper standard. New territories were exploited, and the respective Governments adopted the gold standard. The world demand for gold reflected the process of transition; it grew far more rapidly than trade and population, and more rapidly than it could be expected to grow under any other conditions or at any time in the future.

By the end of the century practically the whole of the modern industrial world was on the gold standard, and from that time forward the standard was free from the complications and dangers created by the appearance of new disciples. It had become, to all intents and purposes, a world



standard. It could be judged on its merits as an international standard. For the time being the countries that had not yet adopted it could be regarded as relatively minor exceptions. The growth in the demand for gold would be expected to keep pace with the growth in population and in trade per head. During the remainder of the period ending in 1914 there was a fall in the relative amount of gold needed as money. Not only was the banknote increasingly employed in ordinary transactions, but in English-speaking and other communities the cheque or its equivalent was growing in popularity. While on the one side the rate of increase in the demand for gold was affected by the cessation of the march of nations towards the gold standard and the growth in the use of substitutes for gold coins, on the other, the rate of annual supply was increased by the development of the South African gold mines. For these reasons the downward trend in prices came to an end about 1895 or 1896 and was replaced by an upward trend which continued until the outbreak of the World War and the suspension of the gold standard.

The rise in prices during this period was not acceptable to everybody. The lag in wages caused serious discontent and probably hastened the growth of national organisations capable of much good but also of serious harm. Forces were being generated which have materially helped to shape economic and social events since the war. But the period of rising prices was also one of rapidly developing trade and relatively high profits. The discontent was that of

the employed worker rather than, as at present, of the unemployed worker. The former might complain of inequalities in the distribution of wealth, but he could not complain of the pernicious effects of "deflation". As the gold standard permitted a steady increase in the supply of money, and a rise in prices, the arguments now frequently employed against the gold standard would have sounded foolish. The standard itself was enjoying a respite from popular criticism. In its broad sense it was accepted on all sides as not merely inevitable but also desirable.

Then came the war, with the usual economic consequences of war. The gold standard was abandoned by nearly every country and currencies were left to the mercy of needy Governments. The inevitable war-time inflation was followed by the customary post-war boom and the process of inflation was carried a stage farther. The subsequent period of depression and falling prices imposed a searching test of economic policy and revealed the degree of exhaustion from which the various countries suffered. Currency instability and trade depression were associated in the minds of people as cause (or part cause) and effect. It was assumed that if and when currency stability was restored the world would have a chance of recovery: without such stability recovery was impossible. It was known, even at that time, that stability was a term that begged most of the questions at issue, but such a detail was of no consequence at a time when people longed for the restoration of pre-war conditions.



The world that disappeared in 1914 appeared, in retrospect, something like our picture of Paradise. The financial leaders were strongly supported by public opinion when they pressed for a return to the gold standard.

The world returned to gold. The defeated countries, whose currencies had been destroyed by inflation pursued to its logical end (though not in obedience to logic), created new currencies linked to gold. After "looking the dollar in the face" for a couple of years we restored the gold standard in 1925 at the pre-war rate. In the following year France and Belgium stabilised their currencies in relation to gold and in 1928 restored the gold standard, France fixing her currency at about one-fifth the pre-war gold value. Meanwhile most other countries had joined the gold standard group. Within the space of four years the gold standard had been restored, and it remained in office—though not always in power—until 1931, when it was again destroyed. From 1924 to 1929 most of the currencies of the world were stable, and the economic world made rapid progress, although, for reasons that will presently be noted, Great Britain did not enjoy a reasonable share of that progress.

The depression in trade after 1929 imposed too heavy a strain upon our own country and in 1931 we again suspended specie payment. Our example was followed at intervals by a large number of other countries, and now the world is divided into two parts, the group of countries that have abandoned the gold standard and those that still, in fact or in theory, have clung to it.

When, a few months ago, the United States joined the former, it became evident that the influence of gold was weaker than it had been at any time since the war.

In this country the gold standard had appeared to act as a strait-jacket. The paper pound had been given such a high gold value that our freedom was severely restricted. In spite of pessimistic predictions before the step was taken the feeling engendered by the suspension of gold in 1931 was one of newly-found freedom. The fall in the external value of our currency actually stimulated trade. We found, however, that we were merely enjoying a larger individual share of a diminishing total. And other countries discovered that they could, with advantage, join in the game of "bigger-my-neighbour", which France had been quietly playing for several years and we had begun to play in boisterous fashion. Then followed the new practice of "competitive depreciation" with the aid of instruments euphemistically called "exchange stabilisation" or "exchange equalisation" funds. Before this new practice spread we were enjoying our new freedom. Gold was a "fairweather standard," to which we were in no hurry to return. America wanted us to return to gold, but why should we rush into new danger? Disillusionment came when the United States (and therefore Canada) joined in the new game. The most recent experience, with new and strong players, has led us to believe that, after all, the game is not worth the candle, and that what we had termed a strait-jacket was merely that sort of discipline which is a condition of freedom.



The gold standard promises once more to become popular.

## II.

The brief survey that I have submitted suggests the need for a restatement of monetary theory. In spite of all that has been published in recent years I do not believe that the monetary standard has yet received adequate treatment as a separate problem. In most cases the discussion of the standard has been more or less incidental to the discussion of other problems that either appear more urgent or are regarded as the central theme of the writer. Naturally I do not propose, in this paper, to attempt to fill the gap. But I venture to attempt to place before you those issues which, in my opinion, can be appreciated by the general public and must be faced if we wish to restore and afterwards maintain the gold standard in this and other countries. Moreover, I shall submit reasons for my belief that we should again seek to establish that standard, and that some modifications recently suggested would tend to weaken rather than enhance its value as an instrument of social progress.

Money is the means by which we secure ownership of things that we desire, or obtain services of various kinds. The amount of money paid for goods and services is the result of bargaining between buyers and sellers, and this result is influenced by certain fundamental considerations. One of these is the connection or sympathy that normally exists between the rates of payment (which I shall call wages) prevailing

for personal services. If a coal-miner earned ten times as much as a railway worker every-body would know that there was some highly abnormal influence at work which would ultimately disappear. Relative wages are governed by silent and persistent forces known to every student of elementary economics. They tend to arrange themselves around a mean wage in the manner determined by such forces. In a world of change the dispersion of actual wage rates at any time is never precisely that which the persistent forces tend to produce; nevertheless, the correcting influences are always at work. Again, the "short period," during which deviations from the "normal" distribution about the mean level may continue, tends to grow longer. The mills of competition grind slowly. But they continue to grind. We know that a rise or fall in the wages of one group will not be permanent unless it is followed by a corresponding change in the wages of the other group, or unless there has been a change in the nature of the persistent forces to which I have referred. It is precisely this sympathy in wage movements that gives significance to the conception of an average wage and to movements in that average.

If it be true that the relationship between individual wages is not arbitrary, it is also true that the relationship between individual prices is not arbitrary. In the long run prices are governed by costs, and costs ultimately mean wages. Even economic rent, in the last resort, is a function of the wage average. If prices are governed by costs and costs by wages,



and if relative wages obey a law of distribution, it follows that actual prices also tend towards a "normal" arrangement or distribution. If a house of ten rooms could be purchased for the same sum as a hundred tons of coal, every body would recognise the existence of some abnormal influence which could not fail, ultimately, to bring a correcting influence into play. A rise or fall in a large group of prices will not be permanent unless either a similar change takes place in the remaining group or a change has occurred in the real costs, and therefore money costs, of supply. It is precisely this sympathy in prices that gives significance to changes in the price average or general level of prices. As in the case of wages so, too, in the case of prices; the "short period", during which deviations from the "normal" distribution may continue, tends to grow longer; but in the long run the effect of the persistent force of competition (broadly interpreted) becomes evident even in a constantly changing world.

These elementary facts seem to me to provide the true foundation of a theory of money. The supply of money needed by a community, and the supply of money that can be absorbed by a community, is a function of the price average. If every pound of wages or of prices were called ten pounds, the community would merely be using ten times as much money as before. Conversely, if the supply of money is fixed, the price average must conform to that supply, and in a state of equilibrium the wage average and the price average will reflect the normal distribution of individual wages and prices.

But a change in the supply of money produces intermediate effects before the final state of equilibrium is reached. Nor is it necessary to stress the practical importance of these intermediate effects, which will presently be considered. At the present stage, however, it is desirable to confine our attention to the characteristics of a community in a state of equilibrium in the sense of being free from the intermediate disturbances of a process of change.

I have referred to the existence of a normal distribution of wages and of prices. The statements that I made are applicable to every community in which order is maintained, either through the force of competition or by legal enactment. But the normal relationship of wages or of prices is not the same in all communities: each has its own characteristics. Thus, for example, the relative rates of remuneration of school teachers, coal-miners and railway workers may not be the same, under normal conditions, in Great Britain as in Germany. The normal distribution may vary, within narrow limits, even between different parts of Great Britain. The statement may be extended to include prices. Nevertheless, it is true to say that for each community there exists a normal relationship of wages and of prices towards which actual wages and prices tend. I assume this broad generalisation in all that follows.

My next statement is equally elementary. It is a truism that some commodities and services supply local markets while others supply national or international



markets. In the market, whether it be local or world-wide, there is a strong tendency towards a common price. Within this country the price would be quoted in the same money, but in other countries it would be quoted in some other kind of money. If, however, we exported a commodity, we would normally expect to be paid, in foreign money, an amount equivalent to the British money obtainable for it if it were sold at home. The means of payment may be some foreign money—we may, for example, accept payment in marks—but the measure of value is our own money.\*

For the purpose of simplifying the statement I shall assume commodities (including services) to be divided into two groups, international and domestic, the former comprising those which are commonly exported from one country to another and the latter those which supply local markets. Further, I shall neglect variations in costs of transport. Finally, I shall assume that all communities or countries employ gold as money. It follows that international commodities command the same prices in all countries. British exports are sold at the same prices as German exports or American exports. But we have already seen that the prices of British exports are normally related to the prices of all other things produced and sold in Great Britain. Consequently the price average or general price level in this country will be such as to produce the international prices for international commodities while the wage average or general level of wages will be such (under a normal distribution of individual wages) as to produce that price

average. It does not, however follow that the wage average in this country must be the same as in other countries. The wage average will be a function of natural conditions, industrial technique and human efficiency; but it must be such as to enable the country to maintain the price average dictated by international conditions.

The same general truth may be expressed in another way. Gold, like other international commodities, is distributed among the markets (countries) of the world in such a way as to command the same value in all. Value in this connection means purchasing power. It follows that in the state of equilibrium represented by such a distribution of gold, the exports and imports of a country are balanced. It must be so, for it is evident that if exports do not balance imports there will be a flow of gold from one country to others. This flow will only cease when a true equation has been established.

It will be clear from the statements already made that if all countries employ gold, and only gold, as currency, each must accept the wage and price average or level dictated by the price average of international goods, and that this will be determined by the gold supply in relation to the demand. If the gold supply is  $X$  the price average will be half as high as if the supply were  $2X$ , for in making such a comparison we may assume the rapidity of circulation to be the same in the two cases. Such a currency therefore imposes a discipline upon each country; it must march in step with the others. If one country found a gold mine within its boundaries, issued currency to the

\* It is immaterial that, in this case we accept the risk of exchange: it would be possible for us to cover that risk, and the cost of covering it would be a prime cost and a component part of the price in pounds. In a state of equilibrium there would be no such risk.



amount of the new supply and raised wages and prices to the extent of the new available currency, exports of other commodities would fall and imports increase, with the result that the gold would flow out until a new equilibrium was reached at a correspondingly higher international price average. During the intermediate stages the industries supplying international commodities would be depressed in the country possessing the new gold mine, and correspondingly more active in other countries. This change in the state of trade would be the active force that would restore the new state of equilibrium.

It will also be evident that the same results will follow if, instead of using gold as currency, each country employs paper representing gold, pound for pound or dollar for dollar, so that any variation in the supply of gold is automatically followed by a variation in the supply of paper currency. Nor is the case altered if gold represents not a hundred per cent., but  $X$  per cent. of the paper currency. For it is clear that a given variation in the supply of gold is followed, automatically, by a similar percentage variation in the supply of currency. Moreover, it is obvious that the smaller the percentage gold reserve (that is to say, the greater the economy in the use of gold) the higher the price average of international goods and the wage and price average within each country. But it remains true that each country is subjected to the discipline to which I have referred.

Provided one condition is satisfied, the case is not altered if, instead of merely employing paper currency the supply of

which is automatically adjusted to the supply of gold, a country also employs means of payment, such as the cheque, the supply of which may vary independently of the supply of gold. The condition is that the country remains on the gold standard. The gold standard is a legal enactment to the effect that the legal tender of a country shall be convertible on demand into a specified quantity of gold. Its economic significance is that it maintains a fixed rate of exchange.

While a country is on that standard it is forced to adjust its price average, and therefore its wage average, to the international price average. So long as the currency is a stated proportion of the gold supply the currency adjustment to a change in the latter is automatic. But when such currency is supplemented by means of payment the supply of which is not automatically controlled, some other means of adjustment must be found. In modern communities the duty of adjusting the supply of money, in its broad sense, and thereby administering the Gold Standard Act, is entrusted to the Central Bank or some equivalent organisation. The Central Bank is given the right to issue legal tender, and the supply is always—though not necessarily—specified in relation to gold supply. But there is no legal regulation of the use of other means of payment. Control is left in the hands of the Central Bank, and the instrument of control is the rate of discount, supplemented and made effective by open market operations.

By means of the rate of discount, reinforced, when necessary, by open market



operations, the bank is able to control the supply of means of payment and thereby to adjust the wage and price average to the international price average. That being so, control by law of the supply of legal tender is not inevitable. It may still be desirable, for it is usual for the discount policy of the bank to be governed by the supply of legal tender held in reserve and this, in turn, is determined by gold movements. Nevertheless, it represents a stage in the evolution of the credit system rather than an integral part of a perfect system. It is even more desirable in other countries than in Great Britain. On the other hand, it is clear that the proportion of gold held against currency may be materially altered without prejudice to the present system. The latter secures an automatic adjustment of the internal price average to the international price average, and this may be done with a 30 per cent. gold reserve as effectively as with a 40 per cent. reserve. A change from the larger to the smaller reserve would permit a substantial rise in the international price level.

The discussion of the gold standard has been based, so far, upon an important assumption, namely, that trade between countries consists of the exchange of commodities, including such services as shipping. I have ignored capital movements and interest payments. On that assumption I have tried to show that, when countries are on the gold standard, their internal wage and price averages must be adjusted to the price average of international goods. In a state of equilibrium trade between the countries will be balanced, that is to say,

exports and imports will be equal in total value. Within each country the wage and price averages will represent a normal distribution of particular wages and particular prices. If equilibrium is disturbed, gold movements will follow. In practice the equilibrium between countries will quickly be restored through the adjustment of the internal prices of international goods following depression on the one side or, on the other, greater activity. But the resulting internal disequilibrium is not so quickly removed. Some trades are affected more quickly and seriously than others; some are sheltered, and others unsheltered. Wage rates in the latter fall out of line with wage rates in the former. So long as this adjustment is delayed the intermediate effects will continue. But in the long run the condition of domestic disequilibrium will be changed and a new position of stable equilibrium be reached, both within the country and between different countries.

In the next stage of the discussion it is necessary to consider the effects of capital movements. One of the commodities entering into the final price average is capital, which, for my present purpose, I shall divide into investment capital and liquid capital. It is well known that the price of capital is higher in new countries than in countries which, in the industrial sense, have reached maturity, and that the difference is greater than the measure of relative risk. Hence we find a movement of capital from older to younger countries, enabling the latter to develop more rapidly than they would be able to do without such assistance. Investment



is an import (of bonds) which must be offset by an equivalent export of commodities. Other things being equal an investing country therefore enjoys an excess of current exports of commodities (including current services) over imports. We need not pause to consider whether foreign investment or the excess of exports is the cause, or which came first. It is sufficient to point out that, in a position of equilibrium, the price average within a country must again be such as to make the price average of exports equal to the international price average and that, for commodities (including current services), the average will be lower than it would be if capital were not being exported. But in due course the lending country receives interest, and the amount of interest increases annually. This inflow of interest neutralises a corresponding outward flow of capital. By 1914 the interest receipts of Great Britain were apparently less than the amount of capital annually added to our foreign investments. Our exports of commodities (including current services) appeared to be less than our imports of the same kind. We were reinvesting abroad nearly the whole of the interest upon accumulated investments, but apparently we already needed a small proportion of such interest to pay for current imports. A debtor state which had ceased to borrow also possessed a surplus of commodity exports, the surplus being needed to pay the interest on accumulated debt. Such was the position of the United States of America before the outbreak of the World War.

The growth of long-term investment

was normally so slow and regular that it did not destroy the internal equilibrium of the investing country. For short periods it might invest more or less than the commodity surplus representing the sum available for investment. But in such cases the balance of payments was maintained by the transfer of liquid capital. The investment operation was supplemented by a credit operation. Similarly, if for any other reason there was a temporary excess of imports or exports, the surplus or deficit was removed by a movement of liquid capital.

It is here that we find the essential difference between investment capital and liquid capital. Investment might well be termed an industry resembling coal-mining or cotton manufacture. It possessed (if we ignore cyclical fluctuations) a fairly constant market outside the country and had been built up slowly upon the assumption that the market was comparatively safe and likely to grow. Other industries, supplying the commodities representing the export surplus available for investment, had also grown up alongside the investment industry, their growth being based upon the assumption of continuity in the growth of investment. In short, investment was an integral part of the industrial structure and an influence determining the remaining permanent features of the latter. It was not an accident of growth or an occasional visitor. Continuity was of its essence, and if all foreign markets for British capital had suddenly disappeared, industry would have been reduced, for a time, to a state of chaos. Liquid capital, on the other hand, was employed, in different



places and at different times, as an equalising factor. Its purpose was to restore or maintain temporary equilibrium when equilibrium had already been destroyed or threatened; to ease the restoration of true or stable equilibrium by reducing the intermediate effects of a process of change or the effects of some temporary disturbing factor. I shall endeavour to show that some of our most serious difficulties since the war have been due to the fact that the distinction between investment capital and liquid capital has lost much of its pre-war significance.

### III

The conditions that I have described in the second section seem to me an essential part of a secure foundation for the working of the gold standard. But they do not indicate all the conditions that must be satisfied. In order that this may be made clear it may be desirable to indicate very briefly the features of the pre-war gold standard and the essential differences between the working of the pre-war standard and the working of the standard since the war came to an end.

The pre-war standard was of slow growth and became the foundation of a financial system of a highly complex character regarded from the point of view both of structure and of function. The standard was adopted by one country after another under conditions favourable to its operation; it represented a choice between three or more alternatives, and its adoption was regarded as a real advance. The first important point that I would emphasise is that

the industrial structure had been adapted to the requirements of the standard. The normal level of wages, costs and prices, was adapted to the rate of exchange and consequently to international level of prices. The currency was neither over-valued nor under-valued, but neutral. The theory of comparative costs afforded a real explanation of the distribution of industry and trade between nations. Changes in the distribution of trade were slow and continuous and were due either to changes in the relationships of real costs of production or to changes in tariff policies. It is, of course, true that changes occurred in the relation of the gold supply to the world demand for gold and therefore in the international price level, but these were so slow as to present no serious obstacle to the adjustment of wages and costs in individual countries. In this connection it should be observed that gold was allowed to move freely from one country to another in response to economic influences and that movement was only due to such influences.

In the second place, the savings of the people were invested in long-term securities. A comparatively small amount was added every year to the fund of liquid capital employed in financing trade; but this fund was determined by trade requirements and by the opportunities for long-term investment rather than by the willingness or unwillingness of their owners to invest.

In the third place, the long-term investments of lending countries, such as Great Britain, Germany and France, were appropriate to the industrial structures of both



lending and borrowing countries. Thus, for example, the industrial structure of Great Britain and the annual overseas investments of Great Britain formed pieces which fitted together to form part of the economic mosaic.

In the fourth place, although most of the countries of the world were living under protective systems, and of systems of greater or less protection, tariffs were not employed to correct temporary failures to balance international payments during periods of depression. Protection represented a choice of alternatives and in each case the system was carefully thought out and determined by long-term considerations. For a relatively long period of years a protective system could be regarded as a constant; international trade adapted itself to that system and for this reason the system did not seriously prejudice the operation of the gold standard. This statement does not constitute a defence of protection.

Finally, the credit system of the world was not only firmly organised, but organised in such a way as to facilitate the working of the gold standard. The Bank of England acted not only as the Central Bank of Great Britain, but also as a sort of International Bank of Economic Settlements. In time of need it was able to draw funds from other countries and to employ those funds at the place of need and in the manner dictated by that need. One of the outstanding features of the system was that, when any country was in distress, the Bank

of England was able and ready to mobilise the reserves of the world and to rush to the rescue of that country. Credit or liquid capital was thus a balancing influence rather than an influence employed to destroy an existing state of equilibrium. If actual gold was needed it was forthcoming, as in the case of the United States of America during the crisis of 1907; if a short-term loan was needed, gold was not unnecessarily moved from one country to another; gold movements merely supplemented credit operations. Gold was not an alternative to a short loan, neither was it moved about in such a way as to necessitate a counteracting short loan operations. Both credit and gold movements were correcting rather than disturbing influences; they restored rather than destroyed equilibrium. The Bank of England adopted a more or less neutral attitude in the sense that it performed the essential functions of an International Bank and regarded the problem of monetary stability as an international problem. I do not, of course, suggest that its attitude was altruistic and that Great Britain voluntarily adopted such an attitude merely in the interests of world stability and progress. Such was not the case. The economic structure of Great Britain and the position that she held as the largest investing country and the centre of world finance made her individual interests identical with the interests of the world as a whole. There was no conflict, or presumed conflict, between the one and the many.

(To be Continued)



## The Economic Survey of India.

BY

RAO BAHADUR C. GOPAL MENON, MADRAS.

The appointment of a Committee consisting of three professors of Economics to prepare questionnaire preparatory to the conduct of an economic survey in India has not come too soon. The suggestion for holding a survey of this nature has been brought up to the notice of the Government from time to time both on public platforms and in the Legislatures of the different Provinces. It is, however, an omission that in the Committee appointed no business man has found a place. The mind of men employed in Colleges and Universities will be directed to the study of pure science. It is necessary to direct our attention from the pure science to applied science of Economics. It is necessary to show how our generalisations embrace every day facts, how principles can be applied to the problems which at all times have confronted the statesman and the Manufacturer. To perform this task requires a knowledge of both pure science and the applied science of Economics. There is no branch of Public or Municipal Work which would not gain in efficiency if there are attached to it one or more officers whose business it should be to study the economic questions concerning the department and prepare in scientific form data for future guidance and to be elaborated afterwards into practical shape. It will not be enough if merely information is collected, the analysis of materials collected should be brought into relation with wider economic factors of

the problems of the day. An economic survey of India would, therefore, not only be necessary for that purpose, but would afford opportunities for Indian Economists to enter upon a new sphere of activity and thereby give economics some sort of practical utility. An economic survey of India would lead to far-reaching results. It was Prof. Ashley, who pointed out the necessity of widening the scope of economics by the introduction of a new branch which he styled "Business Economics"—which he explained as "a sustained and systematic treatment of Economic questions as they present themselves to men actually engaged in business—a treatment which will frankly take business success as the immediate criterion for the matter in hand; though it will take care to explain again and again that considerations of business expediency no more determine the effect of certain actions on *Society at large* than the rules of the art of strategy determine, the beneficence of military operations."

No enquiry is, therefore, more interesting and instructive and at the same time more difficult in the history of nations than the study of economic and material conditions of a country and it will be impossible to give an adequate outline of the subject in an article because the subject is so vast that its ramifications extend into every known industry. In order to understand India's present economic conditions, it is necessary



to know the vicissitudes through which she has gone. For a knowledge of the early economic condition of the people of India, a perusal of R. Dutt's *Economic History of India* would afford ample material for investigation. The work of Dr. Francis Buchanan's two volumes constituting his travels in India also gives an account of the economic condition of the people and their agriculture and manufactures in his time. Modern economic development has outgrown with marvellous rapidity; it has been influenced greatly by steam and electricity that were unknown to the men of a hundred years ago. With the application of steam and electricity, hand work and domestic system gave way to the steam-power and the factory system. One outstanding event which altered the channels of Commerce and trade making it possible to meet the demands of distant markets and which thus made it obligatory to produce on a large scale was the opening of the Suez Canal in 1869. In the words of Sir William Hunter the opening up of the Suez Canal has enabled India to appear in her true commercial character as a producer of raw materials upon an enormous scale, the essential feature of that competition being a rivalry between the productive powers of the tropics, and of the temperate zone. Transport developed by the introduction of railways and several other factors were brought into existence tending to the economic well-being of a country. The railways enabled the new Indian staples to be taken to the sea, the substitution of Indian in certain cases for English coal, and the great increase in steam shipping reduced

rates; in conjunction with these changes and largely as the result of above factors, the manufacturing system of India has been re-organised, and an industrial impetus imparted. To help the development of the resources of the country, British capital flowed into the land to seize the opportunities afforded thereby and as a result India began to compete keenly with the manufacturing industries of foreign countries.

Till very recently nobody bothered to ponder over the economic well-being of India, although it is an axiomatic principle that the improvement of the economic condition of a country rests principally with the people themselves and mainly depends upon their advancement in intelligence and industry. Intelligence and industry shape the economic growth of a people more than the material and physical conditions which surround them. With a population of 350 millions of people, a vast continent with abundant raw material and manufacturing facilities, with the improvement in the means of transport, with plenty of resources and markets near at hand, with advantages of cultivable land and with a people thrifty and with wants few, it is no wonder, that a change in the economic condition of India has assumed a more definite shape in recent years. Greater thought on Indian Economics has been bestowed; a start was given by the late Mr. M. G. Ranade. That great economist did not survive long to impart to his countrymen his experience and knowledge of the economic study as applied to the conditions, ideas and social institutions of our country. Since his time, a few others took



up the threads left by him to weave them into a finished product, but it must be said that no serious attempt has yet been made in India to devote to the study of economics that attention which it necessarily deserves.

In the primitive stage all wealth came from land and agriculture was considered to be the only source of wealth. The Physiocrats, the French School of Economists "laid stress on the powers of nature as the basis of national prosperity and of public wealth." Their theory was that agriculture alone was wealth and that manufacture, by costing all the additional value it imparted to a commodity, produced none and was "sterile". With the industrial revolution in England in 1770, the Physiocratic ideas were gradually displaced by the much abused "doctrine of exchange". With the advent of this new theory the domestic stage of industry became transformed into the factory system, and the centre of economic power shifted from the landed aristocracy to the capitalist class.

When the West was an agricultural country, India carried on a brisk trade in the export of cotton and woollen goods and minerals, etc. The early economic history of India is characterised by what Sir William Hunter calls, "industrial genius of her people which even more than her natural wealth and her extensive sea-board distinguished India from all other Asiatic countries." In the fourteenth and fifteenth centuries when India had no knowledge of the conditions in the East, India had kept up intercourse with Western Asia, Egypt and Europe. India's foreign trade in her manufactured articles was enormous, but with the

advent of the new period of industrial revolution, her manufactured articles could no longer compete with the articles made by the modern complex machinery. All industries in India were crippled and the people devoid of skill and experience, with scarcity of capital, lack of machinery, and want of co-operation had to fall back upon the only resource of agriculture. In recent years there is, however, a tendency on the part of the people to develop industries and the Tariff Board appointed as a result of the Report of the Fiscal commission is going into the merits of each industry which needs protection and as the result of the Board's decision the Legislature decides the period for which protection should be granted for such of the industries as possess the required condition of manufacturing capacity in the country, both in regard to the supply of raw material, labour and other requisite agents of production.

The economic enquiry should, therefore, be conducted under the four headings of agricultural, industrial, commercial and financial conditions and what the outlook would be under these headings is worth our attention.

Agriculture is the greatest and the most important industry of India and in the consideration of the different industries, agriculture claims the first place. The Royal Commission on agriculture has given the lead as to the directions in which agriculture should be developed and the Committee has only to go upon the lines suggested by the Royal Commission—it may consider the question whether the present



assessment of land revenue is in proportion to the value of the yield from land, to what extent agrarian depression is due to excessive production and whether the depression may not be alleviated to some extent by specialisation and localisation of production by confining to areas most suitable for the production of agricultural commodities. Among other things the Committee would have to investigate the present position and to devise how best to improve the agents of production and distribution, how to prevent undue division of holdings, how rural communications are defective and can be developed and how agricultural industries can be promoted and so on. The survey should of course detail the present position and suggest how to improve it. Although agriculture claims the first place, the introduction of Western ideas has set in an overwhelming tide of opinion against continued ruralisation of the people. Realising the fact that India was once industrially great and also taking a lesson from foreign countries that excessive dependence on agriculture alone merely producing food grains and raw materials for the more advanced industrial nations is short-sighted and unprogressive, a sense of duty has come upon the people of India to build up manufactures, and we find today ten times more capital sunk in industrial development than was the case two decades ago. India's principal industries at the present day are those connected with the manufacture of cotton and jute products, leather, silk, wool, paper, cement, matches, chemicals, sugar, tea, coffee, tobacco, iron and steel. The industry that most comes

into competition with Japan and Lancashire is cotton. The future of the industry depends on the possibilities of better varieties of cotton that can be made available for manufacture.

One of the essentials for manufacturing industries is the natural resources of the country; as far as India is concerned there is abundant raw material in existence—all that is required is the technical skill and the necessary capital to turn them into finished articles. Excepting iron, steel, cotton, coal, leather and paper other industries have not attracted much attention on the part of the Indian capitalists. There is a big move to develop the sugar industry. No doubt India is the home of sugar-cane. In other countries the scientific cultivation and treatment of the raw material has been revolutionising the industry, but the protection which is now granted to this industry will greatly aid its development.

Apart from these industries, there are several minor industries which in India can be developed successfully to compete with foreign countries. For instance India has gums and resins, which possess distinct properties, each one of which finds in India a market in meeting the demands of some indigenous industry. It must be said that India's industrial evolution has just commenced and when advance is made, the India of the future will bear little resemblance to the classical India of the past.

Among other things the Survey report should provide an inventory of the small and big industries and the possibilities of new



ones and extensions of old ones. It should indicate how the present methods of production and distribution can be improved upon and how organisation can be improved so as to establish equilibrium between production and consumption much more easily. The possibilities of cottage industries and their future organisation might also be set out.

#### COMMERCE.

On the commercial side the committee would have to study the present directions of internal and external trade, the help rendered by the transport services, the position of the different means of communication and so on. One great benefit from the Report would be the location of new internal and external markets and the promotion of freer and cheaper inland trade by means of Railways, waterways, and airways.

#### FINANCE.

The financial structure of the country did of course come for elaborate investigation by the Central and Provincial Banking Committees and the Economy Census Committee might examine new aspects such as the amount of foreign and indigenous capital employed in industries, the pace at

which the latter is replacing the former, how it would be possible to infuse greater confidence in the minds of the public in joint stock enterprise, how the administration of companies should be controlled by Government and in what ways industrial and agricultural capital can be mobilised within the country.

In short the Report of the Committee must give a comprehensive survey of the economic position of the country, giving an adequate idea of the wealth of the country, the income per head, the amount of capital productive and unproductive, present and prospective available in the country, the agricultural and industrial production, the standard of living, the burden of taxation, and future programme of development. The Committee has very arduous work ahead and it would certainly be advantageous if ample funds are placed at its disposal for touring the country and taking an exhaustive inventory as the Indian Economic Enquiry Committee recommended as long ago as 1925. Having taken action on it so late the Government is expected to see it through in no half-hearted or halting manner.

—*Appeared in "The Hindu".*

### Prof. Thompson's Address at the Indian Economic Conference at Annamalainagar.

BY

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The Presidential address of Prof. Thompson of the Allahabad University is worthy of the occasion at which it was deli-

vered. Further, it is deserving at the hands of all who are interested in the study of economic subjects of deep and reflective



attention. The thoughts embodied in the address bear evidence of the influence of the extraordinary times we have been passing through. The most potent of the factors that have made these years so memorable have been the abnormally low level of prices and the wellnigh intractable course the world currencies have chosen to pursue. No less interesting and important are the measures adopted by some leading countries like the United States with regard to getting over or round these and other difficulties. The questions affecting the world during all these years have been mainly of an economic nature, and little wonder, therefore, that the economist's first duty has been assumed to be to understand the situation and its problems and discover solutions, tracing the mutual relation of cause and effect. Prof. Thompson has addressed himself with energy and in-sight to this task and, within the limits of possibility of achievement as warranted by the nature of the subject, he has succeeded eminently in his task.

From the manner in which the subject has been dealt with in parts and in detail, it would appear that Prof. Thompson has set before himself the task of analysing, from the point of view of the economist, the present day economic evils and the attitude of Economics towards the same. He is for making Economics a science as exact as any other science has been or can be. To make anything exact a reliable measure is indispensable. In the economic world things not easily measurable have to be measured, and for this very reason, the most accurate measure is required. It is not easy to mea-

sure prices, value, utility, or the energy spent in producing a commodity. But if Economics is to be worth anything in this world of affairs it must provide exact measurements of the most elusive things. So the address deals with this aspect of the study mainly. One may feel that in the presidential address of the Indian Economic Conference, the study of Indian Economic conditions might have been of more immediate use and interest. At such an annual gathering, they might have formed the most appropriate subject for treatment by one like Prof. Thompson with his capacity for profound thought and close analysis.

Prof. Thompson begins by demanding that Economics shall be an exact science making use of such instruments and measurements as would enable her to describe, measure, enunciate laws, foretell and verify in this increasingly economic and complicated world. Changes must be measured with accuracy though there might necessarily arise a margin of error in dealing with causes unknown. He holds that the economist must be in a position to control the forces of the world so as to prevent the evils that have grown to an appalling extent in the world. Here it may be permissible to point out that the world, after all, is neither dominated, nor inspired nor guided by economists. So the burden of correcting the evils which Prof. Thompson feels lying heavy on his shoulders as an economist and which he would desire every other economist to realise and share is, after all, one that he and other economists need not necessarily groan under. The reasons are plain and simple. The part



played by the economist in the construction and maintenance of the social or industrial structure of the world is relatively unimportant where forces are set in motion by men individually and collectively, who have the power and the purse in their hands. Secondly, the economist studies events and their relationship *liesurely* and only after they have happened. He has little or no share in the originating or shaping of these, Captains of industry may utilise the knowledge made available by the economist. But the services of the inventor are in greater demand and are prized higher than those of the mere economist whose function is merely academic and advisory, comparatively. The power of directing and controlling the wheels of the state, industry and commerce lies in hands other than those of the economist. More than all these, the most scientifically developed economics can foretell only that under certain conditions certain causes might produce certain effects, but the foretelling of the causes themselves which alone would make the science of practical help cannot be expected of it. Economics is not the mistress but only the handmaid of Politics, bringing light, no doubt, but only at the bidding of the latter.

The parts of the address dealing with the significance of money as a measure, its merits and defects and the measuring of prices form both pleasant and profitable reading. He exposes the defect of money as a measure, itself elastic attempting to measure inelastic things, and he advises us to look behind money into the goods and labour they are exchanged for. He states only the

truth when he says that in a period of fairly steady prices we are lulled into slumber but now that they are rocking, every one of us is at sea. He draws attention to the real meaning and economy of *liesure* to the labourer, and says that when the relative value of two currencies is changing, it is necessary that the measurement be in terms of goods. But the difficulty is with regard to the devising of the measure, the number and the variety of goods, and the conditions of production regarding efficiency and costs.

His examination of the various standards of measurement—gold, silver, bimetallism, and the tabular standard brings him to the consideration of the symmetrical bullion standard as the ideal one under the circumstances. But this involves an understanding and agreement among the nations on a scale not easily attainable within a measurable distance of time. Nor are monetary conditions the sole or exclusive cause of the present ills.

Economic conditions are analysed by Prof. Thompson and grouped into five classes for study and investigation. The first two are hypothetical cases of the stationary state with uniform conditions, and the other where the conditions change but the causes are foreknown and foreseen. But the more interesting and real are conditions where the causes are unknown and unforeseen, and those where new ideas permeate and exert great influence. Last come the conditions of decay in the economic structure. Prof. Thompson indicates that in these directions Economics can become dynamic. But he seems it to be unduly pessimistic when, in a



plaintive mood, he observes that disagreement among economists is responsible for a certain public dis-regard towards them. But honest differences based on clear thinking and sober judgment must heighten the regard of those whose opinion it is worth having.

A very illuminating part of the address is where Prof. Thompson tries to find out the connection of Price with the satisfaction of the buyer on the one hand and the labour of the producer on the other. Value is, according to him, work which is energy which, in its turn, flows into a commodity making it a store of energy from which satisfaction flows into the person obtaining it. Thus labour can be measured in terms of units of heat and electrical energy. He does not, however, explain how such a measurement would be of practical help. Possibly

he hopes, by inference, that it would result in a better recognition of the true value of labour. His other proposal of measuring labour by beginning with the most unskilled of its kind as the unit is interesting.

Prof. Thompson concludes his thoughtful address with a truly beautiful and philosophic touch. The economic philosopher in Prof. Thompson makes him see in a beautiful vase a store of energy which is not only not lost but attains a higher life when a child in its innocence stumbles on it and breaks it. The child has its spirit moulded in the very act of breaking the beautiful vase. Economics, from such a point of view, and so construed wherever possible, must certainly be dynamic, though it cannot, in such cases, especially, be exact, as Prof. Thompson would have it to be.

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## The "Stenowriter"

### SHORTHAND BY MACHINE

A "Times" report states that an ingenious system of "Shorthand-writing" by machine is being experimented by various British business firms.

It is claimed as simpler, quicker, and more accurate in practice than script shorthand. The ordinary letters of the alphabet are used, with a few conventional signs, and the notes produced can be read by anyone after a little practice.

The machine, known as the "Stenowriter", resembles a typewriter in construc-

tion, but is smaller, light in weight and perfectly silent. It has 21 characters, set on parallel type-bars in one line and actuated by a double row of keys. Any number of keys up to eight may be struck at one time, each stroke printing a syllable or word on a roll of paper, about  $1\frac{1}{2}$  inches wide, which moves up automatically to a fresh line after each stroke. The resulting strip of "stenotyping" looks like ordinary printing with the letters spread out at irregular intervals, each line containing one syllable or a complete word.



The operator uses the "touch" method, the keys bearing no labels. At a recent demonstration a stenotypist made an accurate verbatim record of newspaper extracts dictated in several different languages at approximately 150 words a minute, without any appearance of hurry. It is claimed that the highest speeds, up to 230 words a minute, are attainable, and that the note-taking can be continued at these high speeds for long periods without fatigue.

An advantage on which special emphasis is laid is the universal legibility of the notes taken, which enables one expert stenotypist to keep five or six ordinary typists at work simultaneously. On the other hand, where verbatim notes are taken purely for record purposes, the stenotyped strips may be filled without transcription.

The "Stenowriter" has been widely used on the Continent for some years. At the League of Nations and the International Labour Office in Geneva full reports of conferences have been produced by its use immediately after the close of the discussions, the strips being handed out for transcription by typists at frequent intervals during the proceedings.

"Stenotyping", it is claimed, is much more rapidly and easily learnt than script shorthand. Three months' study at the training school of Stenotype Grandjean, Limited, the producers of the machine, is stated to be sufficient to produce a speed of 100 words a minute, and in about four months complete commercial proficiency is attained. At present the "Stenowriter" is made in France, but manufacture in this country is contemplated.

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# Auditor's Certificate Rules-1932.

## First Examination.

### ACCOUNTANCY AND AUDITING—PAPER I.

(BOOK-KEEPING.)

Marks.

Marks.

1. *Either* (a) A, B and C carrying on business in partnership, keep their books by single entry. On 30th June 1931 the statement of their position was as follows:—

	Rs.		Rs.
A ...	8,760	Cash ...	710
B ...	4,130	Debtors ...	5,980
Creditors...	42,180	Stock ...	44,160
		Plant ...	2,850
		... C ...	1,370
	<u>55,070</u>		<u>55,070</u>

On the 30th June 1932 Cash was Rs. 470; Stock Rs. 8,800; Plant Rs. 4,200; and Creditors Rs. 3,510. They share profits in the proportion of 3/7th, 2/7th and 2/7th, and they have drawn per week during the year; A, Rs. 70; B, Rs. 40; and C, Rs. 30. Interest on capital and partner's overdrafts at 6 per cent., but no interest is chargeable on drawings. Show the position of their accounts on the 30th June and how the amounts are arrived at.

Or (b) A retail trader keeps his books on the single entry system. On the first of January 1932 his assets and liabilities were:—Cash in hand Rs.

13 275; Cash at Bank Rs. 3,300; Stock Rs. 5,500; Amounts receivable from customers Rs. 3,025; Furniture and fittings Rs. 1,100; Sundry creditors Rs. 7,260. His assets and liabilities at the end of the year are as follows:—Cash in hand Rs. 110; Cash at Bank Rs. 4,730; Stock Rs. 4,950; Amount due from customers Rs. 3,630; Furniture and fittings Rs. 1,200; Sundry creditors Rs. 10,900. During the year he found that he had drawn out of the business Rs. 6,000. Of this sum Rs. 2,700 had been spent by him for purchasing a delivery van for the business.

Prepare a statement showing his profit for the year and a Balance Sheet, after writing off 10 per cent. depreciation on Furniture and Fittings and providing 5 per cent. reserve on the outstanding debtors for bad debts.

2. Explain what is meant by the term 'Depreciation.' Illustrate in detail the various methods for providing depreciation in general use giving examples as to the suitability of each method for depreciating various classes of assets. 13

3. *Either* (a) The manager of a manufacturing concern is paid partly by salary and partly by commission. You 13



as auditor are required to prepare and certify (i) the manufacturing profit and (ii) percentage of net profit to the manufacturing cost from the following figures:—

	Rs.	Marks
Stock 1st January ...	10,600	
Purchases ...	30,000	
Wages ...	25,000	
Office salaries ...	6,000	
Discount on sales ...	2,000	
Carriage inwards ...	3,200	
Carriage outwards ...	6,000	
Printing and stationery ...	300	
Rent ...	4,800	
Postage and telegrams ...	320	
Travelling ...	2,500	
General charges ...	350	
Commission ...	2,600	
Workshop power ...	5,500	
Discount on purchases ...	1,000	
Sales ...	1,00,000	
Stock 31st December ...	20,000	
	<hr/> 99,170	<hr/> 1,21,000

In answering this question details must be shown.

Or (b) The undernoted figures were extracted from the Books of Mr. A.

Prepare a comparative Manufacturing Account from the same and state the expenditure items in terms of percentages of the turnover.

	1931.	1932.
	Rs.	Rs.
Purchases ...	3,87,200	4,56,100
Manufacturing wages	1,57,200	1,64,200
Factory power...	94,100	95,000
Carriage inwards ...	43,000	48,100
Initial stock ...	2,75,100	2,64,000
Final stock ...	2,64,000	2,98,400
Sales ...	9,45,000	10,17,500

4. What is meant by the term 'Average Date' in calculating interest? 13

The following is the current account of Mr. A in the books of Mr B. Calculate by means of 'Average Date' the interest payable or receivable by Mr. A at 6 per cent. per annum to the 30th June.

*Mr. A's Account.*

	Rs.		Rs.
12th Jan. To Cash	500	2nd Feb. By Cash	300
16th " " "	300	6th March " "	600
28th Feb " "	900	10th April " "	800
4th March " "	3,000	11th " " "	300
22nd " " "	100	6th May " "	2,500
4th April " "	800	6th June " "	2,500
5th " " "	600	20th " " "	1,000
10th May " "	1,100	30th " By Balance	400
21st " " "	200		
6th June " "	700		
21st " " "	200		
	<hr/> 8,400		<hr/> 8,400

5. A draws two bills on B. one for Rs. 2,500 and the other for Rs. 4,000, 13



Marks.

Marks.

payable three months after acceptance. *B* accepts these bills on the 1st of March, and *A* then discounts the first bill with his bankers at 6 per cent. per annum discount. He then hands over half the proceeds of the first bill to *B*, and the second bill he endorses over to *C* in settlement of Rs. 4,000 due to *C* from *A*. *B* is unable to meet the first bill when the same falls due and requests *A* to pay him half the value not yet received by *B*. *A* is unable to do so but agrees to accept a three months bill for the amount due to *B* with interest at 6 per cent. and this is duly carried out, and *B* discounts the same at 6 per cent. and thus meets the first bill on due date. As regards the second bill *A* pays *B* Rs. 4,000 on due date, and this bill is met by *B* on due date to *C* who has held this bill during its period of currency. Show the entries that should be found in the books of *A*, *B* and *C*.

6. From the following particulars extracted from the books of the Standard Match Works, Limited, on the 31st December 1932, you are required to prepare a Trading and Profit and Loss Account and Balance Sheet:—

Rs.

Capital 4,500 shares of Rs. 10 fully paid up	...	...	45,000
Sales	...	...	1,86,000
Sundry creditors	...	...	3,000
Purchase returns	...	...	6,000
Machinery	...	...	30,000

22

Motor-car	...	...	2,000
Stock 1st January 1932	...	...	13,000
Purchases	...	...	80,000
Motor-lorry	...	...	3,800
Preliminary expenses	...	...	500
Charges, general	...	...	1,510
Balance at bank	...	...	1,000
Commission paid	...	...	9,000
Interest	...	...	1,000
Workmen's wages	...	...	33,000
Telephone	...	...	250
Bank charges	...	...	150
Rent	...	...	4,600
Office salaries	...	...	7,000
Directors' fees	...	...	400
Power charges	...	...	5,600
Lorry and car expenses	...	...	3,600
Bad debts	...	...	100
Advertisements	...	...	400
Stationery and printing	...	...	250
Postage and telegrams	...	...	700
Repairs	...	...	1,800
Cash in hand	...	...	200
Sales returns	...	...	12,000
Sundry debtors	...	...	28,150

The stock on the 31st December has been valued at Rs. 21,000, and you are required to provide depreciation on motor-car at 15 per cent, motor-lorry at 20 per cent, machinery at 5 per cent., and write off half the preliminary expenses. You are also required to write off Rs. 450 from sundry debtors as bad debts, and provide a reserve of 5 per cent. on the outstanding debtors for likely bad debts. The following is a list of



	Marks.		Marks.
liabilities which have not yet been entered in the company's books:—		following terms:—	13
	Rs.	(a) Power of attorney.	
Workmen's wages ...	3,000	(b) Bill of exchange.	
Purchases ...	2,000	(c) Bill of lading.	
Insurance ...	300	(d) Debentures.	
Power charges ...	500	(e) Days of grace.	
Advertisements ...	100	(f) Pro forma.	
Audit fee ...	500	(g) Salvage.	
Telephone charges ...	25	(h) Blank cheque.	
		(i) Bought note.	
		(j) Specie.	

7. Explain what is meant by the

(Key next issue.)

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