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ISSUES OF CURRENCY – INDIA & ABROAD – A COMPARATIVE ANALYSIS DURING THE BRITISH RULE

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Abstract:

The entire world had witnessed the currency crisis during the world War I and II. The countries also witnessed the Great Depression between 1929 to 1939 which led to the failure of big and small economies, dependent or sovereign. The Era witnessed negative economic impact on all the countries across the world. This paper tries to throw light on the type of impact on dependent country which was under the control of Britain and other independent economies like America and Germany.

Keywords: *Currency Crisis, Dependent and Independent nation.*

Introduction:

India has witnessed the evolution of currency since the ancient times when a barter system was in practice. However, gradually people felt the need of common means of exchange and the trusted means for any trade and business at the regional level. This need gave birth to the coins differing in values on the basis of weight, shape, design, type of metal etc. The currencies also varied from region to region depending on the ruling power. There also existed traditional currencies like cowrie shells which were treated as currency amd used as a medium of exchange by the locals.

The establishment of East India company, brought substantial changes not only in the currency but also the system during those times. In the initial stages, the company used existing regional currency for trade and commerce but gradually the company started minting its own coins known as 'Sikka' and started forcing it on the people to use as currency. The company further felt the need to exercise central control over the currency and thus began to bring the uniformity in currency. It was the East India company which started the system of paper currency in India. However, this was a lengthy process which was successfully materialised in the due course of time. This paper focuses on the challenges of the stabilization of currency at the outset of 20th century in India. Additionally, the researcher shall try to present a comparative analysis of the issues of currency with that of other countries like America and Germany.

Definition of Currency, 'A currency is a standardization of money in any form, in use or circulation as a medium of exchange, for example banknotes and coins'.

Literature Review:

1. **Poona B. (2023):** In her research paper titled "Dr. B.R. Ambedkar on the Development of Currency System During British India: Problems and Suggestions" critically studies the theses of Dr. Babasaheb Ambedkar and concluded that the theories given by Dr. Babasaheb were the foundation for many economic policies and the working of financial organisations including Reserve Bank of India. There is a relationship between monetary supply, demand-supply and the purchasing power.
2. **M. Balaji (2020):** The researcher in the paper titled "The Monetary Crisis and Foundation for Reserve Bank of India (1890-1935)" studied that though the import of gold increased, it was not added to aid the circulation of money in the economy. The currency was devalued to boost the exports which was futile with the situation of Great Depression across the world. The paper further highlights that inspite of the development in India during those times, the World War I aided with Great depression and monetary crisis worsened the situation. At the same time Reserve Bank of India was born to tackle with the economic challenges.
3. **Kalim S. (2024):** In the article "Economic Drain from India During British Rule - World Financial Review" critically examines the British rule and its economic policies and concludes that the British very cleverly misappropriated the Indian currency in their own way and carried away the surplus rendering the Indian economy in a bad plight. Also the theory of unequal exchange added to the economic fall down of the country.
4. **Niall M. (2014):** In the research paper titled, "Monetary Policy And The Indian Economy During The Inter-War Years" the author emphasizes that the short run policies are always detrimental for the growth of the nation. There were many important key points such as International Gold Standard Policy, high exchange rate policy and the Indian debt repayment system and so on were responsible for the bad economic condition of the country.

Objectives of the Study:

1. To understand the problems of India associated with currency during the British Era.
2. To study the issues of currency with other countries in the world at the same time.

Rationale of the Study:

This paper focuses on the issues of the currency in the pre independence period when the country was under the control of Britain. The British government exploited the economic policies of India for its own benefit and this was difficult for the Indian authorities to understand. It was Dr. Babasaheb Ambedkar, who for the first time in the history, through his study of Ph.D, brought to light, the issues and associated problems related to currency during those times. This paper shall highlight the economical challenges faced by the nation during the British rule.

Limitations:

This study covers the period of beginning of 20th century based on the prevailing economic situation during that time. It covers the countries like United States of America and Germany for better understanding of the crisis.

Indian Crisis:

- During the late 19th century, Silver coins used as a medium of exchange in India, was the lifeblood of daily trade and commerce. For generations, silver had been the most trusted metal and people saved it as a precious property. Silver was not just a metal, it was a tradition, an emotion for Indians. It was used and worn for all important occasions, also given away as dowries, offered in temples as offerings by the devotees. This may be possibly due to the easy availability of the metal, though we

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did not have enough production of silver in the country. People knew and trusted it for generations.

- There was a natural reluctance to abandon something so deeply ingrained. Shifting to Gold from silver, as per the decision of the British governemnt, was actually difficult to gulp down for the masses. Some economists opined that adopting gold would be detrimental for the economy. Additionally, people did not trust the government of the new decision. The British government always initiated policies that were beneficial for its own country at the cost of development of India.
- India had major trade relations with China and silver was the main medium of exchange. Also, India had limited reserves of gold which restrained her from converting to gold.
- To provide stability into trade and effective management of exchange rates, British introduced gold exchange standard which link the rupee to the British sterling at a fixed exchange rate in the late 19^{th} century, a metal, they saw as more stable.
- The gold exchange standards set up by England were not at par. It was meant for the welfare of their own country as the standards were set as per their own wish, further exploiting India by way of increased exports.
- However, due to shortage of gold reserves in the country, the paper currency was soon printed and it became the medium of exchange. The convertibility of these paper currency was still a challenge at that time. This situation gave birth to a common control bank known as Reserve Bank of India.

U.S.A. Crisis

- In America both gold and silver were used as a medium of exchange by the passage of Coinage Act.
- With the passage of time and other economic factors in 19^{th} century, Dollars became the sole currency in America. However, it found that the british pound was more widely accepted than the dollar.
- At the outset of 20^{th} century America also turned towards Gold Standard following its fellow nations. This standard was later suspended twice during the world war I to pay off the debts to the European nations. However, America did not participate in the World war and it was the only country which could retain the gold standard until 1917. Still in order to stabilize the foreign exchange, the gold standard was suspended again.
- The beginning of 1933 witnessed severe deflation resulting into the suspension of gold standard by the authorities. It further brought a restriction on the quantity of holdings of gold by private parties. Post world War II all the currencies around the world were valued in terms of dollar.

Germany Crisis:

- Like all other independent countries around the world, Germany had opted for Gold standards and it was a prosperous country till 1914. With the onset of world war I it witnessed soaring inflation and the value of Mark fell to the ground. The entire war expenses was at the cost of government borrowing rather than tax or savings.
- The German Mark lost its credibility and a new curency Reichsmark was adopted in 1924 to stabilize the exchange rate. Everything seemed well till the arrival of Great Depression.
- Germany saw a major currency crash and subsequently followed by the collapse of banks due to outflow of cash. The government brought strict monetary controls restricting the sale and purchase of foreign currencies.

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- The establishment of Nazi governemnt exercised and regulated monetary control in a more effective manner.

Conclusion:

It is evident that the independent countries like United States of America and Germany were capable enough to manage and execute quicker and effective measures towards the stabilisation of the currency and its exchange rates as they were able to establish their sovereignty. On the contrary, India being controlled by the British government, had to depend on it for the decisions that were formulated only for the welfare of Britain. This led to innumerous challenges and hardships faced by Indian people due to colonialism and lack of central control of currency which was later looked upon by Reserve Bank of India after its establishment in April, 1935 under the provisions of Reserve Bank of India Act 1934.

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