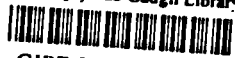


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INDIA  
AND THE  
GOLD STANDARD

BY

H. F. HOWARD, F.S.S

OF THE INDIAN CIVIL SERVICE  
COLLECTOR OF CUSTOMS, CALCUTTA

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## PREFACE.

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EXCEPTIONAL interest attaches to the monetary system now in force in India, as representing a great practical experiment in the direction of the establishment of a Gold Exchange Standard, or, in other words, an arbitrary fixing of the parity of the standard silver coin with gold. It is somewhat curious that, though prior to the introduction of the standard the proposals made formed the subject of much controversy, and though numerous articles relating to it have subsequently appeared in the press, no connected account of the currency system of India since her adoption of the standard has, so far as I am aware, been published. This book makes an attempt to furnish a description of the existing currency arrangements in India, and an explanation of the circumstances of their adoption and development. I have also referred to certain subjects which are more or less directly connected with the Gold Exchange Standard in some of its aspects, such as India's balance of trade and the alleged effect on prices of the coinage of rupees by the Government of India.

2. Conditions in India, as in other undeveloped countries, differ from those in the more advanced

countries in which a currency containing a large proportion of gold coins has been necessitated by economic requirements. The mono-metallic standard with the free coinage of the standard metal possible in the case of the latter possesses a great element of strength as well as of simplicity, inasmuch as the standard coin of the country is available for export at its face value when trade demands so require. In India, however, and other Oriental countries the use of silver in large amounts is a vital necessity for everyday transactions. The adoption of the Gold Exchange Standard has made it possible for her to retain the silver in daily use, while at the same time eliminating the fluctuations of exchange between her and gold-using countries to which she was formerly liable. The rupee has under these arrangements been converted to a token coin. The advantages of a token coinage are that it is economical, is not liable to be taken out of a country by exportation, and is less likely to be melted down than a coinage with an intrinsic value equivalent to its face value. The maintenance of such a currency necessarily involves some intervention on the part of the Government. As, however, an American writer, Mr. C. A. Conant, has pointed out in connection with systems of the kind, "constant intervention by the Government is a part of the existence of any system, even where free and gratuitous coinage on private account is authorised by law.

The advantage of a token currency is that the Government takes upon itself the responsibility for maintaining the par value of the coins by means of a gold reserve and takes the necessary steps to maintain this reserve . . . . . The proposition is not to secure fixity of value between gold and silver bullion, but between gold and silver coins. Therein lies a marked distinction." It is of course incumbent on the controlling Government to regulate the amount of silver money to the need for it and to take the necessary steps for keeping such money at par, in order to ensure that, though the price of gold and silver bullion continue to be subject to the play of supply and demand in the market, the fluctuations in bullion will not affect the value of the coins.

I have endeavoured to explain the method in which the Government of India have dealt with these problems, and with the difficulties which have incidentally arisen in connection with them. It is perhaps hardly necessary to dwell at length on the fact that the difficulty of the maintenance of the par value of the rupee, or in other words the stability of exchange, depends on the maintenance of a balance of trade favourable to India or, to use a more correct terminology, of an equilibrium in her international 'balance of accounts' or 'balance of indebtedness.' Such equilibrium is ultimately dependent on the continuance of India's economic prosperity, whether

agricultural or industrial, which will enable her to pay by her exports for her imports and for the other services rendered to her by other countries. This fact is, however, true for all countries whatever their monetary system.

3. There is one matter to which I have not referred in the following chapters, *viz.*, the duty of 4 annas per ounce imposed in 1910 on silver imported into India. The imposition of a heavy tax on silver had previously been on more than one occasion pressed on the Government of India by critics of their currency policy, in order, as some put it, to prevent the competition of silver with the Secretary of State's drawings, or, from another point of view, to raise the rupee from its bullion value to something more akin to its token value. It is not impossible that the tax may operate to strengthen the position of the Government of India in respect to their currency arrangements for one or other, or both, of the reasons suggested. The tax is not, however, as the above remarks indicate, an essential feature of the system; and it was imposed, as the Government expressly stated at the time, solely for revenue purposes. I have therefore refrained from entering on a discussion of this controversial question.

BENGAL CLUB,  
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*April, 1911.*

H. F. HOWARD.

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