

INDIAN EXCHANGES.

From the TIMES, 9th September, 1886.

Sir,—I hope you will kindly allow me to make a few observations upon Indian exchanges. I shall first describe the mode of operation of an export transaction from India. In order to trace the effect of the exchange only, I take all other circumstances to remain the same—*i.e.*, any other circumstances, such as of supply and demand, &c., which affect prices.

I take an illustration in its simplest form. Suppose I lay out Rs.10,000, to export 100 bales of cotton to England. I then calculate, taking exchange into consideration, what price in England will enable me to get back my Rs.10,000, together with a fair profit—say, 10 per cent.—making altogether Rs.11,000. Suppose I take exchange at 2s. per rupee, and find that 6d. per lb. will bring back to me in remittance as much silver as would make up Rs.11,000, I then instruct my agent in England to sell with a limit of 6d. per lb., and to remit the proceeds in silver, this being the simplest form of the transaction. The result of the transaction, if it turned out as intended, will be that the cotton sold at 6d. per lb. will bring back to me Rs.11,000, and the transaction will be completed.

Now, I take a transaction when exchange is 1s. 4d. instead of 2s. per rupee. I lay out Rs.10,000 for 100 bales of cotton, all other circumstances remaining the same, I calculate that I can get back my Rs.10,000, and 10 per cent. profit, or Rs.11,000 altogether, if my cotton were sold at 4d. per lb. Then I instruct my agent for a limit of 4d., which being obtained, and silver being remitted to me at the reduced price, I get back my Rs.11,000.

The impression of many persons seems to be that just as I received 6d. per pound when exchange was 2s. per rupee, I

get 6d. also when exchange is only 1s. 4d. per rupee, and that, silver being so much lower, I actually get Rs.16,500, instead of only Rs.11,000. This, however, is not the actual state of the case, as I have explained above. When exchange is at 2s. per rupee and I get 6d. per lb. for my cotton, I do not get 6d. per lb. when exchange is only 1s. 4d. per rupee, but I get only 4d. per lb.; in either case the whole operation is that I laid out Rs.10,000 and received back Rs.11,000. When exchange is 2s. I get 6d. of gold; when exchange is 1s. 4d. I do not get 6d. of gold but 4d. of gold, making my return of silver, at the lower price, of the same amount in either case—viz., Rs.11,000.

I explain the same phenomenon in another form, to show that such alone is the case and no other is possible. Supposing that, according to the impression of many, my cotton could be sold at 6d. per lb. when exchange is only 1s. 4d., that is to say, that I can receive Rs. 16,500 back for my lay-out of Rs. 10,000, why my neighbour would be only too glad to undersell me and be satisfied with 40 per cent. profit in place of my 50 per cent. profit, and another will be but too happy and satisfied with 20 per cent., and so on till, with the usual competition, the price will come down to the natural and usual level of profits.

The fact is no merchant in his senses ever dreams that he would get the same price of 6d. per lb. irrespective of the exchange being either 2s. or 1s. 4d. Like freight, insurance, and other charges, he takes into consideration the rate of exchange, and settles at what price his cotton should be sold in order that he should get back his lay-out with the usual profit. This is what he expects, and he gains more or less according as the state of the market is affected by other causes, such as larger supply or demand, or further variation in exchange during the pendency of the transaction.

Taking, therefore, all other circumstances to remain the same, and the exchange remaining the same during the period of the completion of the transaction, the effect of the difference in the exchange at any two different rates is that when exchange is lower you get so much less gold in proportion, so that in the completion of the transaction you get back in either case your cost and usual profit. In the cases I have supposed above, when exchange is 2s. and price is 6d. per lb., then when exchange is 1s. 4d. the price obtained or expected is 4d. per lb., in both cases there is the return of Rs.11,000 against a cost of Rs. 10,000.

I stop here, hoping that some one of your numerous readers will point out if I have made any mistake. It is very important in matters of such complicated nature as mercantile transactions that the first premises or fundamental facts be

clearly laid down. If this is done a correct conclusion will not be difficult to be arrived at. I have therefore confined myself to simple facts. If what I have said above is admitted I shall next explain the operation of imports into India, and then consider in what way India is actually affected by the fall in exchange or in the value of silver.—Yours faithfully,

National Liberal Club, Sept. 2. DADABHAI NAOROJI.

From the TIMES, 13th September, 1886.

Sir,—Mr. Dadabhai Naoroji, in his letter to you on this subject, seems to enunciate the proposition that because he gets 6d. per lb. for cotton when exchange is 2s. per rupee, therefore he will get 4d. per lb. when exchange is 1s. 4d. But it is not so. As a matter of fact, when exchange was 2s. per rupee the price of cotton was about 3d. per lb., and now with exchange at 1s. 5d. it is about 4d. per lb. The subject is not elucidated by imaginary *data*.—Yours respectfully,

London, Sept. 9th.

R. L.

From the TIMES, 13th September, 1886.

Sir,—Allow me to point out that the account given by Mr. Dadabhai Naoroji, in the letter published in your columns of the 9th inst., of the effect on commercial transactions between India and England of a fall in the exchange value of the rupee is scarcely an adequate one.

Mr. Dadabhai Naoroji's contention is twofold—first, that the commercial profit on an article of merchandise such as cotton is independent of the rate of exchange, and, secondly, that this is due to the fact that a fall in the rate of exchange is accompanied by a proportionate fall in the gold price of cotton in England.

The first of these contentions is so far correct that, although a sudden fall in exchange will, under ordinary circumstances, temporarily raise the exporter's profit above the normal level, competition will always come into play to bring it back to that level.

The second of Mr. Dadabhai Naoroji's contentions appears, however, to be based on a partial apprehension of the facts. When Mr. Dadabhai Naoroji talks of instructing his agent for a certain limit, he means, of course, that he instructs his agent not to sell below that limit. His agent, if he is a man of business, sells at the best price he can get consistently with his instructions, and this price is determined, not by the rate of exchange, but by the whole of the conditions affecting the market at the moment.

Other things being equal, the instant effect of a sudden fall in exchange is to increase the exporter's margin of profit. Competition, as your correspondent points out, immediately

sets in to reduce profit to its normal level. But in what way is it that competition operates to produce this effect? Surely by inducing an increase of supply. Other things being equal, it is in virtue of such an increase of supply alone that the price of the cotton in London can be lowered.

Now, increase of supply in London implies, as its correlate, increase of demand in India; and increase of demand in India implies, other things being equal, increase of price in India. In other words, equilibrium is attained, not, as your correspondent would have it, through a fall of the selling price in England proportionate to the fall in exchange, but through a fall of the selling price in England less than proportional to the fall in exchange, combined with a rise of the buying price in India less than inversely proportional to the fall in exchange.—I am, sir,

Your obedient servant,

Streatham Common

JAMES W. FURRELL.

From THE TIMES, 16th September, 1886.

Sir,—In reply to “R. L.’s” letter in *The Times* of yesterday, I may first explain that I made no reference to actual prices in the market, as such prices are the resultant of many influences—supply, demand, bulling and bearing speculations, present stocks and future prospects of supply, every day’s telegraphic news from all parts of the world, political complications, Bank rate of interest, and various other small and temporary influences. I therefore explain again that what I am considering at present is the effect of only the fall and rise in exchange, leaving all other circumstances that affect prices as uninfluenced or unaltered.

“R. L.” says:—“As a matter of fact, when exchange was 2s. per rupee, the price of cotton was about 3d. per lb., and now, with the exchange at 1s. 5d., it is about 4d. per lb.” I do not find this to be a fact. Even were it fact it would not matter at all, as all other circumstances of supply, demand, &c., have to be taken into account therewith. But what “R. L.” states does not appear to be a fact. I shall confine myself to cotton, though I could give similar decline in other principal commodities.

Exchange began to decline about the time when Germany demonetised its silver, about 1873. The statistical abstract of the United Kingdom, 33rd number, gives the “average price” of raw cotton as follows:—

—	1873.	1874.	1875.	1876.	1877.	1878.	1879.
Per cwt. £.. ..	4·01	3·62	3·47	3·02	2·93	2·80	
—	1880.	1881.	1882.	1883.	1884.	1885.	
Per cwt. £.. ..	2·94	2·92	2·93	2·91	2·85	2·86	

This shows a fall of nearly 30 per cent.

Now Mr. Furrell's letter. He is right in supposing that the shipper's instructions mean not to sell below the limit. I have been a merchant and an agent in the City for some 25 years, and, knowing full well what my shipper meant, I sold at the best price I could get. He is also right in saying that the price is determined by the whole of the conditions affecting the market at the moment, and that is just the reason why, as I have said above, I did not refer to actual prices. So far we agree, but Mr. Furrell's fallacy begins in this sentence:—"Other things being equal, the instant effect of a sudden fall in exchange is to increase the exporter's margin of profit." Here he first forgets the "whole of the conditions" to which he referred in the previous paragraph, as determining the price at any moment, and next he forgets that the increase of the margin takes place in the case of those exporters only who have already entered into their transactions, and those transactions at the moment are uncompleted, so far as the remittances of the proceeds are concerned. But those exporters who have yet to begin their transactions have no such increase in their margin of profit, as they have not yet had any transaction or margin of profit, pending or existing. I took the simplest instance of an exporter entering into a transaction at a particular rate of exchange, and described the process of the operation of that transaction from its initiation, as far as exchange alone was concerned, independent of "the whole of the conditions." And then I further explained that any fluctuation in exchange during the pendency of the transaction was the exporter's further chance of profit or loss. But I may go further, and now explain that even in the case of transactions already entered into, the fluctuations in exchange do not affect the exporter in the bulk of the trade. The bulk of the shipments from India are drawn against, and as soon as this is done, the exporter has no further interest at all in any subsequent fluctuations in exchange, beyond his little margin above the amount of his bill, and thus it will be seen that in most cases there is no instant effect to increase the exporter's margin of profit.—Yours faithfully,

DADABHAI NAOROJI.

National Liberal Club, Sept. 14.

From the TIMES, 20th September, 1886.

SIR,—Mr. Dadabhai Naoroji, in his letter in the *Times* of this morning, while finding in my previous communication a "fallacy" which has no place in it, leaves altogether untouched the point really at issue between us.

After stating that the price of an article of Indian export

depends, not on the rate of exchange only, but on the whole of the conditions affecting the market at the moment, I proceeded to treat the question on the basis taken up by your correspondent, and to consider the effect of the rate of exchange apart from all other conditions.

"*Other things being equal*," I remarked, "the *instant* effect of a sudden fall in exchange is to increase the exporter's margin of profit."

Mr. Dadabhai Naoroji quotes this sentence correctly enough, but in criticizing it he entirely ignores the force of the words that I have italicized. He says I first forget the "whole of the conditions" referred to in the previous paragraph, the fact being that by the words "other things being equal," I expressly exclude these conditions.

I next, your correspondent adds, forget that the increased margin of profit affects only transactions begun but not completed, while leaving unaffected the transactions not yet begun. How the "instant" effect of a sudden fall in exchange could apply to transactions not begun is not very obvious.

There was the less room for misunderstanding that I went on to say that, under ordinary circumstances, competition at once came into play to reduce profit to its normal level.

The fact is Mr. Dadabhai Naoroji and myself are in agreement except on one point, to which he makes no reference in the letter under reply.

He contends that competition operates by reducing prices in England proportionally to the fall in exchange. I contend that competition operates by concurrently reducing prices in England, and raising them in India.—I am, Sir, your obedient servant,

JAMES W. FURRELL.

Streatham Common, September 15.

From the TIMES, 27th September, 1886.

Sir,—Mr. Furrell's letter, published in *The Times* of to-day, concludes:—"The fact is Mr. Dadabhai Naoroji and myself are in agreement except on one point, to which he makes no reference in the letter under reply. He contends that competition operates by reducing prices in England proportionally to the fall in exchange. I contend that competition operates by concurrently reducing prices in England and raising them in India."

Now what Mr. Furrell says in his first letter is this:—"Competition, as your correspondent points out, immediately sets in to reduce profit to its normal level. But in what way is it that competition operates to produce this effect?" And then he answers himself by begging the whole question:—"Surely by inducing an increase of supply." And he goes on, "Other things being equal" (though he does not allow

among the "other things" supply to remain equal), "it is in virtue of such an increase of supply alone that the price of the cotton in London can be lowered."

Now, as an independent fact, an increase of supply may, no doubt, lower prices. But it is not in virtue of an increase of supply alone that prices can be lowered in London. What I am pointing out is, how the competition and the lower price are the direct result of lower exchange or higher value of gold only, without any increase of supply being at all induced or made, and any rise in price being caused in India. The fact simply is that, because gold is of higher value, cotton is sold at as much less gold as would suffice to bring back to the exporter his actual outlay and profit. Or, putting it in another way, the manufacturer of England may send his order direct to India to buy at the silver price there, and pay his gold for it at the rate of exchange, without a single ounce of additional supply or any increase in price in India being necessitated.

What I mean, then, is simply this. To treat the subject in its simplest form, I take every other circumstance—*i.e.*, supply, demand, &c—to remain the same, and consider the effect of exchange only, and I show that from this simple cause—*viz.*, the lower exchange only—if price be 6d. when exchange is 2s., the price will be 4d. when exchange is 1s. 4d., irrespective of or without causing any increase whatever in the supply or in the price in India.—Yours faithfully,

DADABHAI NAOROJI.

National Liberal Club, Sept. 20th.

From the DAILY NEWS, 24th September, 1886.

Sir,—I now state the mode of operation of an import transaction into India. Taking all other circumstances to remain the same, suppose I am willing to lay out Rs. 10,000 for importing, say, 50 bales of grey shirtings—supposing that 2s. per rupee being the exchange—I find that I shall have to pay 6s. per piece in order that, at the market price in India I should be able to realise Rs. 11,000 on the sale. Now, when exchange goes down to 1s. 4d., I see that, unless I am able to buy in England at 4s. a piece (instead of 6s.), either I cannot send the indent from India, or the market price must rise in India as much as I may have to pay more than 4s. in England. Under the ordinary operation of economic laws, it is not necessary that I should be obliged to pay more than 4s. per piece in England. Gold having appreciated here—in other words, prices of all commodities having proportionately fallen—the cost of production to the manufacturer will be so much *less* gold. What cost him 6s. in gold before now costs

him only 4s. in gold, and he is able to sell to me at 4s. for what he formerly charged 6s., the value of 4s. now being equal to that of the 6s. before, and I am able to sell at the same number of rupees now in India as I did before, when exchange was 2s. per rupee, and the price of the shirting was 6s. per piece. Suppose in England the produce of a farm is worth 100*l.*, and that the landlord, the tenant, or farmer, and the labourers divided it equally, or 33 1-3*l.* each. Now, suppose gold having risen, the same produce is worth only 75*l.* The share of each should then be 25*l.*, which, at its higher value or purchasing power, is equal to the former 33 1-3*l.* But the landlord thinks he must still have his 33 1-3*l.*, and the wage-earners ask for the same quantity of gold as before, and a struggle arises. But whatever the struggle between them (into the merits of which I need not enter here) the produce fetches 75*l.* only (equal in value to the former 100*l.*) The manufacturer thus gets his raw produce, whether home or foreign, at the depreciated price. The manufacturer also has his difficulty with the item of wages, which, if not proportionately reduced according to the rise in gold, prevents the cost of the manufactured article being fully reduced. But the market price of the article falls in accordance with the appreciation of gold, and the indentor from India gets what he wants at such reduced gold price. Articles produced in limited quantities or of reputed makers, or of some specialities, may and do command their own prices, and Indian importers may be, or are, obliged to pay some higher price for the same, but for the great bulk of the articles of trade the Indian importer has not to pay generally much more than he did before, except so far as any fluctuations in exchange during the course of the transaction may necessitate any higher or lower payment. All other circumstances remaining the same, the indentor from India pays more or less gold according to the state of the exchange, paying less gold when gold is high or exchange and silver low, or paying more gold when gold is low and exchange or silver high; the result being that the importer pays the same amount of silver whether exchange is low or high. He lays out his Rs.10,000 and gets the goods in England at such varying prices in gold, according to exchange, as enable him to get Rs.11,000 on sale in India.

To sum up, for the bulk of the trade, other circumstances remaining the same, India does not get for her exports more silver for her produce but less gold at lower exchange; and she does not pay for her imports more silver, but less gold at lower exchange. In actual operation the result of course is not quite so rigid. Various influences affect the course of the market. What I mean is, that taking the simple element of

appreciation of gold, and fall in silver or exchange, the course of trade is not much affected in prices in India. Were India concerned merely in the fall in exchange and nothing else, that would not have mattered much to her, beyond making the owners of gold so much richer in proportion to the fall in silver, as compared with gold, and introducing an additional element of the chances of profit or loss, in the fluctuations in the rate of exchange during the pendency of the transactions. But even in that case, the exporting merchant protects himself from this risk by selling his bills against his produce to the Indian Banks, whereby the rate of exchange for his transaction is fixed. The proceeds of his produce have to pay a certain sterling amount to the bank here. As far as the banks are concerned, they are dealers in money. For every bill that they buy in India in order to receive money in this country they sell also in India a bill to pay in this country. The two operations are entered into at the same time at different rates of exchange, and the difference of the rate is their profit of the day, all selling and buying transactions covering each other. Those exporters who do not draw against their produce or shipment, and wait for returns from England, undertake the additional chance of loss or gain of the fluctuation of exchange, just as they take the chance of loss or gain from fluctuations in price from other causes. The importer of goods into India is not so well able to protect himself against the fluctuations of exchange when he cannot buy ready-made goods, and must wait for some time for the execution of his order by the manufacturer. But by telegraphic communications and by selling bills forward here much protection is secured. Upon the whole, as I have said above, fall in exchange would not matter much to India if her trade alone were concerned. She can control her wants by taking more or less. But the direction in which India really suffers, and suffers disastrously, from the fall in exchange or silver is a different one. I shall state my views upon that subject in my next.—Yours faithfully,

DADABHAI NAOROJI.

National Liberal Club.

From the DAILY NEWS, 28th September, 1886.

Sir,—I would give a few details of the transactions of trade between England and India to make the effect of fluctuations in exchange a little clearer. Resuming the illustration of my first letter, of Rs. 10,000 laid out for 100 bales of cotton, I first take the case in which the exporter does not draw against his shipment, but waits for remittance of proceeds of sale from England. Suppose he has based his transaction on

an exchange of 1s. 4d. per rupee to sell at 4d. per lb. to get back his Rs. 11,000. Suppose, before the cotton is sold exchange falls to 1s. 2d. This fall in exchange (all other things remaining the same) lowers the price to $3\frac{1}{2}$ d. per lb., and suppose the cotton is so sold. To the exporter this fall will make no difference, as though his cotton sold at $\frac{1}{2}$ d. less, he gets the difference made up by the lower exchange of 2d., and thus gets the same amount of silver as he had calculated on. The same will be the result if exchange rose and price rose with it. Though he will get more gold from the rise in price, he will get as much less silver owing to the rise in exchange, the result being the original amount of silver. Suppose again that exchange falls or rises after the cotton is sold, but before the proceeds are converted into silver, by the purchase of silver or bill of exchange. In that case, if the exchange falls, it is so much profit to the exporter, as he will get more silver for the gold already secured by the sale when exchange was higher; and if exchange rises he loses, as he gets so much less silver at the higher exchange. Next I take the transaction in which the exporter draws against his cotton, so that he gets his silver back at once from the Bank that buys his draft at the exchange he has calculated on, and undertakes that the Bank shall have a fixed amount of gold paid to it in England out of the proceeds of the sale. In other words, the exporter converts his outlay from silver into gold—*i.e.*, instead of Rs. 10,000 in silver, it is now fixed to a certain amount in gold to be paid to the Bank in England.

Now, suppose exchange falls before the cotton is sold. With the fall in exchange there is a corresponding fall in price, and the exporter realises so much less gold. But as he has already engaged to pay a fixed amount of gold to the Bank on the basis of a higher exchange, he suffers as much loss as the proceeds are shorter than the amount of the draft. A fall in exchange in such a case is a loss and not a profit to the exporter. In that case, it is the rise in exchange before produce is sold that is profitable to the exporter. Next, suppose that exchange rises or falls after the cotton is sold, that would not matter to the exporter at all, because he has not to receive any remittance, but the gold of the proceeds is to be given away to the Bank, excepting only such surplus or deficit that the proceeds may leave after the payment to the Bank. It will be seen from the above that in the two different kinds of operations—*viz.*, clear shipments and draft shipments, the results from the fluctuations of exchange are entirely the reverse of each other. In the second case, in which the shipment is drawn against, and which forms the bulk of the actual export transactions, a fall in exchange before the goods are sold is a loss, and not profit, to the shipper.

In considering, therefore, the result of the fall in exchange, it is necessary to bear in mind whether the particular transaction is a free shipment or a draft shipment, for in each case the result is quite different. And as the bulk of the export trade of India is of draft shipments, the result of a fall in exchange is a risk of loss, and not a chance of profit. The shipper who draws against his shipment does not desire a fall in exchange, but a rise, before his goods are sold; for such rise, by raising the price, will give him so much more gold to leave a balance in his favour after paying the Bank the amount of gold already contracted for and fixed by the draft. The surplus gold will go back to him as so much more profit than he had calculated upon. The general idea, that a fall in exchange is somehow or other always a gain to the exporter of produce from India, is not correct. As shown above, in the case of shipments against which bills are drawn (and which is the case with most of the export business), a fall in exchange before the cotton is sold is actually adverse and a loss to the exporter. Once exchange becomes settled, subject only to the usual small trade fluctuations, it is no matter at all whether a rupee is 2s. or 1s. The price of produce will adapt itself to the relations of gold and silver, and the exporter will get back only his outlay and usual profit, whatever the exchange may be.

In the case of imports into India, in a certain way the importer is able to be free from any risk of the fall in exchange. He telegraphs his order to his agent here to buy at a certain price at a certain exchange. The agent manages, if the market allows it, to buy at the limit, and sell a bill at the same time at the required exchange. If the goods are ready made, the agent sells his bill at once. If there is delay in the manufacturing of the goods, he sells the bill forward, so that when the goods are ready the Bank engages to buy the bill at the stipulated rate of exchange, no matter whether the rate of the day is the same or more or less. As in the case of the exporter, it is also the same with the importer, that when exchange is normally settled, it does not matter to him whether it is 2s. or 1s. per rupee. The price and the trade adjust themselves, and settle down into a normal condition, according to the relation between gold and silver. As a further elucidation of the fact that fall in exchange brings down proportionally a fall in the price of the produce exported from India, I may mention that if the holders of cotton in England did not sell their cotton in accordance with the relation between gold and silver, or in other words according to exchange, the cotton manufacturers can send their orders to Bombay to buy there at the silver-price, and then pay in gold according to the exchange, *i.e.*, remit from England silver or

bank bills according to the price of silver or rate of exchange. The manufacturers in England know every day what the prices are in India, and can, and often do, buy there by telegram as readily as in Liverpool or London. As this letter has already become long enough I postpone the consideration of the actual and permanent injury to India caused by the fall from 2s. per rupee to my next letter.

Yours faithfully,

National Liberal Club, Sept. 24. DADABHAI NAOROJI.

From the DAILY NEWS, 5th November, 1886.

Sir,—To understand fully how India is seriously injured by the fall in exchange below 2s. per rupee, it is necessary to bear a few facts in mind. Were it not for these facts, it would be, as I have already explained in my former letters, of no material consequence to the Indian trade, whether gold and silver settled down in the relation of 2s., or 1s., or 3s. per rupee. The peculiarity of the present position of India does not arise so much from economic as from political causes, and as long as these continue no mere change in currency will avail. I cannot here enter into a discussion of these political causes. I confine myself to the facts as they exist at present. India has to remit about £14,000,000 in gold value every year, not as trade exports, but as a remittance for which there is very little return in the shape of any imports of merchandise or treasure, except for Government stores. This remittance has to be made through the channel of trade exports, and gives a false appearance to the extent of the true trade of India. When exchange is 2s. per rupee India has to send produce worth 14 crores (140 millions) of rupees. When exchange falls to say 1s. 4d. per rupee, India has to send half as much more produce to make up for the fall. This result is disastrous to *British* India. To realise fully the seriousness of the evil to *British* Indian subjects it is necessary to consider the nature and extent of their true trade exports. I take the exports of all India as 83 crores (830 millions) of rupees for last year. But of these exports a portion belong to the Native States. I take the figures roughly, as there are no official figures to be guided by. The population of the Native States is about 22 per cent. of the whole population of India. At this percentage, and deducting 70 lacs of tribute which they pay to British India, their portion of the exports will be about 17 crores. The exports of the European producers in India of coffee, tea, &c., may be roughly put down at 10 crores. Some portion of the exports belongs to other parts of Asia, which I do not take into account. The remittances for home charges take up say

about 21 crores; and private remittances of Europeans (official and non-official) may be roughly taken as 10 crores. A further portion of the exports is for getting back goods suitable for the consumption of Europeans only. This may be roughly taken as one crore. Deducting these various items from the exports of India, there remain only about 24 crores of rupees' worth, which are the true trade exports of British Indian subjects. Taking even 25 crores, to be quite on the safe side, there is hardly 2s. worth of exports per head per annum. With the above analysis of the exports of India it is necessary to mention a few other facts. Lord Lawrence said in 1864 that the mass of the population enjoyed only a scanty subsistence. In 1873 he repeated this opinion—that the mass of the people were “miserably poor.” The late Finance Minister (Sir E. Baring) and the present Minister (Sir A. Colvin) have similarly declared the tax-paying community as exceedingly poor.

Bearing all these facts in mind, the present situation is this. The “miserably poor” people, in addition to having to remit produce worth 140 millions of rupees at 2s. per rupee for home charges, have to remit another 70 millions or so worth more to make up the fall in exchange, say at 1s. 4d. This to be done from “scanty subsistence” may well appal our British rulers, as disastrous to the people and dangerous to the rulers. No wonder, then, that the Government of India express anxiety and embarrassment in their letter of 2nd February last: “This state of affairs would be an evil of the greatest magnitude in any country in the world; in a country such as India, it is pregnant with danger.” But the Secretary of State for India probes the whole evil and points out its true cause in the following significant words. Till this cause is fairly faced and removed, there can be no hope for India. The letter of the Secretary of State for India to the Treasury, of 26th January last, says:—

“The position of India in relation to taxation and the sources of public revenue is very peculiar, not merely . . . but likewise *from the character of the government, which is in the hands of foreigners, who hold all the principal administrative offices and form so large a part of the army.* The impatience of taxation which would have to be borne wholly as a consequence of the foreign rule imposed on the country, and virtually to meet additions to charges arising outside the country, would constitute a political danger, the real magnitude of which, it is to be feared, is not at all appreciated by persons who have no knowledge of or concern in the government of India, but which those responsible for that government have long regarded as of the most serious order.” (The italics are mine.)

It is a matter of great congratulation for India that there is now the declaration and confirmation of the highest authority that the root of all Indian difficulty is "the character of the government, which is in the hands of foreigners, who hold all the principal administrative offices and form so large a part of the army." The first most vital question therefore to be faced by the Government and the Silver Commission is this "peculiar position" of India. When this difficulty or evil is removed fall in silver would not be of any consequence beyond the ordinary risks of international trade, and the whole Indian difficulty will disappear, with benefit and blessing both to England and India. Some Anglo-Indians urge that they should be paid on the basis of 2s. per rupee. I sympathise with them for any loss that is caused to them. But if rightly considered, though in their remittances they get less gold, that gold is of higher purchasing power. Excepting for any fixed liabilities in gold, there is no loss to them. If a contract is made it should no doubt be faithfully performed. But this is a simple fact that every Englishman going to India knows very well, that the services are paid in rupees, no matter whether the rupee is 2s., or more or less; that he has never declined to receive the rupee when it was *above* 2s.; and that if by some new discovery the rupee became worth 2s. 6d. or 3s., he will still receive and insist on receiving his rupee. In all cases, therefore, in which pay or pension has been hitherto always paid in rupees, it is idle and unjust now to claim to be paid in gold or at 2s. In addition to this equitable side of the question, there is the moral one that the "miserably poor" people cannot bear the additional burden. These gentlemen can afford to lose something, even if they did really lose so; but to the wretched British Indian taxpayers it will be sheer cruelty. If these gentlemen would ponder over the words of the Secretary of State, they would see that at bottom (though no blame to them, but to "the character of the government") they themselves are the cause of the Indian troubles.

To sum up—1. Fall or rise in exchange does not matter much in international trade, beyond introducing one more element of chances of profit or loss during the currency of any transaction. 2. When the relation of gold and silver is settled, subject only to the ordinary fluctuations of trade, it will be of no consequence whether a rupee is 2s., or 1s., or 3s. 3. Any other silver-using country which is not peculiarly politically situated like India by "the character of its government," will not be affected by any evil similar to that of British India by the fall in silver. 4. The real and lasting remedy for all British India's evils does not lie in any artifi-

cial devices or manipulation of the currency, but in removing the true causes to a proper extent, and then no question either of "extreme poverty" or troubles from fall in silver, or any evil or fear of political dangers of any magnitude to the British rule will ever arise, but both England and India will be benefited and blessed.—I am, &c.,

DADABHAI NAOROJI.

National Liberal Club, Nov. 3rd.

BIMETALLISM.

From the TIMES, 23rd December, 1886.

Sir,—I wish to state some views about bimetallism for the consideration of its advocates. It means that both gold and silver be made legal tender at a fixed ratio—say, for illustration, 16 to 1. Suppose, also, that the intrinsic value of silver is 24 to 1 of gold, or, putting it in a simpler form, say that the legal tender of silver be made ten florins to a gold sovereign, while the intrinsic value of silver is only fifteen florins to £1 gold. The effect of such legal tender would, it appears, be as follows, all other trade circumstances remaining the same:—The producer of silver can take his silver to a mint to be coined. He cannot claim to be paid in gold from such mint. After he receives his coin, *he* will have to put it into circulation. Though his silver is legal tender, he will not be able to force it on the world, in exchange for any other commodity, at its legal tender—*i.e.*, at its fictitious—value of ten florins to £1 gold. Take the ordinary instance of the hatter. Suppose the silver-holder goes to a hatter and offers ten florins for the hat, the price of which is originally one gold sovereign. The hatter knows that the intrinsic value of the ten florins is not equal to £1. He can and will, therefore, decline to part with his hat at ten florins. His easiest plan, to protect himself from receiving the lower metal at its fictitious value, would be to put the price on his hat in the lower metal at its intrinsic value—*i.e.*, at fifteen florins.

Thus the trade, and in fact all people who can avoid receiving ten florins for £1 gold, will do so in sheer self-defence. For the law which would now arbitrarily give a fictitious higher value to silver, and cause loss to existing gold creditors of all kinds, might at any time withdraw such fictitious value and cause loss to the silver-holders or creditors. There is no, nor can there be any, guarantee that this could or might not be done. So, though silver may be made legal tender at ten florins to £1, the world, knowing its intrinsic value, would

not take it at any higher worth. It will decline to pay silver-producers 50 per cent. profit, or whatever it may be.

If the gold basis of the notes of the Bank of England be repealed to-morrow, they will no longer hold their present undoubted currency. If the notes are issued simply on Government credit altogether, they will fluctuate like Consols, according to such credit and all other circumstances that affect Consols. In British India the paper currency is based on a reserve of silver and Government securities. If this sound basis be tampered with the notes would fall in their value, even though "the promise to pay on demand" of the Indian Government is printed on them. Nothing that is not intrinsically sound can be foisted on the world by any law. It would be like trying to stop or regulate the action of gravitation by law. The result would be that the actual currency will be reckoned in silver at its intrinsic value, gold being dealt with at its intrinsic premium, causing temporarily confusion and loss to the ignorant and to the existing gold claimants. The parties who would be compelled to receive silver at its legal tender would be all existing gold creditors of every kind, unless some provision is made for their protection. Government will be obliged to accept its revenue in silver at its legal or fictitious value. Government servants, and present holders of Government securities, will also be obliged to accept the same. The loss to Government and their servants will be a permanent one unless taxation is increased and salaries raised. For, with the exception of Government servants, the rest of the world, who are free to make their contracts with Government, will protect themselves by basing their estimates and prices at the intrinsic value of silver, and Government will have to pay so.

Will the Bank of England be bound to part with its gold at the offer of silver in exchange at its legal-tender value? If so, it will be the interest of the silver holders and producers to possess themselves of gold, as the most certain of the two metals in intrinsic value. If the Bank is drained of its gold, what will be the effect on its notes? Will the present note-holders be obliged to accept silver at its fictitious value instead of gold to which they are entitled?

The farmers will be able to sell their own produce at the intrinsic value of silver, but they will tender rents to the landlords at the legal-tender value of silver. Thus a new difficulty will arise between them till, by some arrangement, the dispute is settled. And so on will be the case with all sorts of existing claims in gold.

The inconvenience of the carriage of the heavier weight of silver will partially operate against it, but in advanced commercial countries like England, this inconvenience will

not be much felt, as all transactions, especially the larger ones, are conducted by cheques and clearing-houses.

Whatever may be the effect of the increased demand for silver the object of the bimetallists that a fixed ratio between gold and silver will be forced upon the world by law is not likely to be realized as long as there is an intrinsically different ratio between the values of the two metals.

Now, if the above views be correct, the effect on British India will, it seems, be this. The pensioners in England who are entitled to receive their pensions in gold, the servants of the India Office, the existing present creditors holding railway and other gold loans, or others having any claims in gold on the India Office, will be obliged to receive silver at its fictitious value. But will they submit quietly to such a loss? Will they not force helpless British India to pay in gold, or, if in silver, at its intrinsic value? What will the English military authorities do? Will they demand payment in gold or in silver at its intrinsic value, or will they quietly submit to accept silver at its fictitious value? They will simply make up their claims or accounts in the intrinsic value of silver. The Anglo-Indian officials in British India will remain where they are. Their rupee converted into the florin in England will remain intrinsically 15 florins to the pound, or at whatever the intrinsic value of silver may be.

The result, then, most likely, will be that British India will be left where it is now, will have to remit home charges as at present with increased quantity of produce to make up the higher intrinsic value of gold payments; and the present distress and political danger, to which I shall refer further on, will remain the same. The hope that India will be benefited by bimetallism will be, I am afraid, disappointed.

Suppose, on the other hand, the views given above (viz., that the world will not take silver except at its intrinsic value only) be not correct, and that though the intrinsic value of silver be 15 florins to £1, it will, notwithstanding, be actually raised 50 per cent. in its purchasing power; or that the world will pay to the producer of silver his 50 per cent. profit. Then, the effect on British India will, I am afraid, be disastrous. Silver is not produced in British India. It has to be purchased by her with her produce. Being the last purchaser she has to pay the highest price for it. Now, if silver actually rises 50 per cent. in its purchasing power, British India will have to pay so much higher price for it. This means that the agriculturist will have to part with half as much more of his produce as he did before to get his rupee, which he has to pay for Government assessment. In other words the tax on the taxpayer will, at one bound, be raised 50 per cent., or whatever the higher value of silver may be.

On the other hand, Government servants will have, in effect, their salaries raised 50 per cent. at one bound. The taxpayer will be ruined and the tax eater fattened. Not only will the whole present evil arising from the home charges remain undiminished, but the taxpayer will be burdened with additional taxation of 50 per cent. all round. This cannot but be disastrous; and the fears of political danger which Indian Government and the Secretary of State for India expressed, as below, will be vastly aggravated. The Government of India, in their letter of the 2nd of February last to the Secretary of State for India, thus express their fears and anxieties:—"This state of affairs would be an evil of the greatest magnitude in any country of the world; in a country such as India it is pregnant with danger." The Secretary of State for India, in his letter to the Treasury of the 26th of January last, in expressing similar fears, also points out the true cause of the whole evil of British India. He says:—

"The position of India in relation to taxation and the sources of public revenue is very peculiar, not merely . . . but likewise from the character of the Government, which is in the hands of foreigners, who hold all the principal administrative offices and form so large a part of the army. The impatience of taxation, which would have to be borne wholly as a consequence of the foreign rule imposed on the country and virtually to meet additions to charges arising outside the country would constitute a political danger, the real magnitude of which, it is to be feared, is not at all appreciated by persons who have no knowledge of or concern in the government of India, but which those responsible for that government have long regarded as of the most serious order."

The whole matter is very important, and needs to be well considered from every point of view.—Yours faithfully,

Steamship Malwa, Suez.

DADABHAI NAOROJI.

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